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VOLUME IV NUMBER 2

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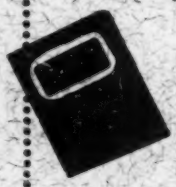

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THE ARMY PROGRAM BUDGET SYSTEM

Major Robert C. Daly
Office, Comptroller of the Army

1. Introduction

The Army Command Management System (ACMS) provides for effective and continuous coordination of programming, budgeting, accounting, and manpower and supply management at all levels of command. ACMS is a means by which all the major aspects of management are combined. Necessarily, however, in a broad discussion of ACMS only general terminology is possible in order to present the "Big Picture."

2. Purpose

The purpose of this article is to elaborate a little more fully on two of the major management processes which ACMS combines. I intend to cover in outline form just what we mean by programming and budgeting and how they are carried out. For those readers who have been connected with these processes, this will be a review. For those who are coming in contact with these processes for the first time, this article will act as a general introduction to fields rapidly increasing in importance as time goes on.

3. Programming

a. Background. What is it? The Army Program System is a method for the organized direction and control of the peacetime military activities of the Army. It is directly related to overall planning responsibilities of the Army for National Defense. In particular, the Army Program System is related to mid-range planning.

b. Relationship to mid-range planning.

The translation of national objectives and policies of the United States into terms of military objectives, military strategy and basic military undertakings is accomplished through mid-range planning.

This planning is for a period of three years of war commencing on an assumed D-day four years in the future. It establishes objectives stated in terms of major forces, deployments, strengths, facilities and material. It provides guidance for conditions of cold war or military conflict short of general war and for general war.

ARMY MID-RANGE PLANNING PROCESS

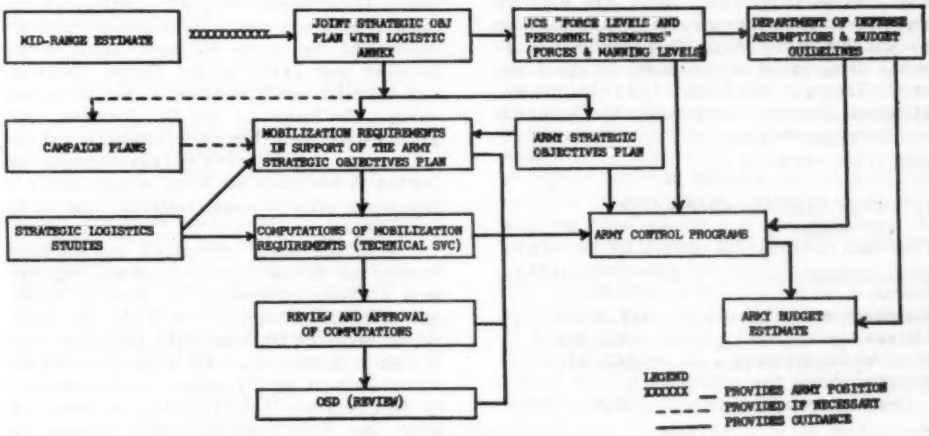

MID-RANGE ESTIMATE
XXXXXXXXXX
JOINT STRATEGIC OBJ PLAN WITH LOGISTIC ANNEX
JCS "FORCE LEVELS AND PERSONNEL STRENGTHS" (FORCES & MANNING LEVELS)
DEPARTMENT OF DEFENSE ASSUMPTIONS & BUDGET GUIDELINES
CAMPAIGN PLANS
MOBILIZATION REQUIREMENTS IN SUPPORT OF THE ARMY STRATEGIC OBJECTIVES PLAN
ARMY STRATEGIC OBJECTIVES PLAN
STRATEGIC LOGISTICS STUDIES
COMPUTATIONS OF MOBILIZATION REQUIREMENTS (TECHNICAL SVC)
ARMY CONTROL PROGRAMS
REVIEW AND APPROVAL OF COMPUTATIONS
ARMY BUDGET ESTIMATE
OSD (REVIEW)
LEGEND
XXXXX — PROVIDES ARMY POSITION
---- PROVIDED IF NECESSARY
——— PROVIDES GUIDANCE

CHART #1

The Joint Strategic Objectives Plan, which is produced annually by the Joint Chiefs of Staff, provides guidance for Army mid-range planning. The Army presents its views to the Joint Chiefs of Staff as to what should be contained in the Joint Strategic Objectives Plan. This coordinated Army position is presented annually by means of the Army mid-range estimate. This estimate is used as guidance by Army planners who participate in the preparation of the Joint Strategic Objectives Plan. The mid-range estimate contains the Army views concerning the strategic concepts to be incorporated in the Joint Strategic Objectives Plan as well as recommended Army missions and basic undertakings required to implement the concepts.

The Army Strategic Objectives Plan develops the guidance received from the Joint Strategic Objectives Plan. This is done in sufficient detail to serve as guidance for the Army control programs which I shall mention later.

The mid-range estimate and the Army Strategic Objectives Plan each include an estimate of funds required to support the objectives.

From the Joint Strategic Objectives Plan the Joint Chiefs of Staff notify the Secretary of Defense of tasks, priority of tasks, force requirements and general strategic guidance concerning development of installations and bases, equipping and maintaining military forces, research and development and industrial mobilization. This statement is considered by the Secretary of Defense in furnishing guidance to the military departments for preparation of their budget estimates and in later coordination. This information is in more detail than contained in the Joint Strategic Objectives Plan.

This information is also forwarded to the Department of the Army for guidance in preparing the control programs.

The mobilization requirements in support of the Army Strategic Objectives Plan is developed to provide guidance to the Technical and Administrative Services. These services compute for their total mobilization requirements for inclusion in the Army control programs.

c. Control Programs.

The Army program actually consists of five control programs. These are each in themselves plans for approved courses of action over a five year period. They furnish coordinated direction to all elements of the Army staff. They are the Troop, Installations, Materiel, Reserve Components and Research and Development programs.

CHART #2
CONROL PROGRAMS

CONTROL PROGRAMS	PRIMARY DA STAFF RESPONSIBILITY
Troop.	DCSPER
Installations	DCSLOG
Materiel	DCSLOG
Reserve Components. . .	ACS/RC
Research and Development.	CRD

The DA staff agencies shown on the chart have definite responsibilities concerning the control programs assigned to them. I shall briefly mention the main aspects of these responsibilities.

First, they are required to develop these programs and to revise them annually. This development and revision consists of the establishment of time-phased, quantitative and qaulitative objectives which are in consonance with approved Army plans and guidance mentioned previously concerning mid-range planning.

Second, the responsible staff agency must review performance in relationship to the objectives of its program or programs.

Third, the responsible staff agency must report to the Chief of Staff periodically, usually quarterly, on the present and projected accomplishment of objectives.

Fourth, the responsible staff agency must take appropriate action to insure accomplishment of objectives.

In order that you can understand more readily what is contained in these control programs, let's briefly review one of them, namely, the Troop Program. This control program establishes the objectives and guidance for the strength structure and deployment of the active Army. It specifies activations, inactivations, reorganizations and troop bases covering military and civilian personnel. It covers deployments, and broad readiness goals to meet the requirements of the Army Strategic Objective Plan and plans for limited combat. It also provides guidance for procurement, distribution, training, movement, management pay and welfare of Army personnel.

The other four control programs establish similar objectives and guidance within their spheres of interest. That is the installations program establishes the objectives, guidance and requirements for Army real property and related activities. The Materiel Program establishes the same for hardware. The Reserve Components Program establishes the same type of objectives, guidance and requirements for the Army National Guard, Army Reserve and ROTC as the Troop, Materiel, and Installations Programs do for the active Army. The Research and Development Program establishes objectives, guidance and requirements for research and development and testing to maintain our Army's superiority in manpower effectiveness, materiel, and techniques.

With the basic objectives and guidance coming out of the control programs together with current information on hand at Headquarters, Department of the Army and comments received from the field, the Army staff is able to develop the Army budget estimate for submission to the President for presentation to the Congress. I shall mention more on this later, but first I should like to discuss the operating programs.

d. Operating Programs.

Each command, agency and installation in the Army that receives funds, prepares for itself each year a plan to cover its peacetime operations. These plans are actually called Operating Programs. It should be noted here that each operating program is in consonance with the overall guidance and objectives of the Army Program, i.e., the five control programs. Broadly speaking, if we were to put all of the operating programs together, we would have

all the parts that go to make up the plans for accomplishing the overall Army mission.

Starting at installation level we find operating programs. We find them at each succeeding echelon right up to and including elements of departmental headquarters. Each of the subordinate echelon programs are in consonance with and carry out their superior headquarters operating programs.

The purposes of operating programs within a command, agency or installation are basically as follows:

First, they record in one place the activities to be conducted. In this regard, they also record the allocation of resources to support their activities in order that missions assigned by higher authority and those assigned by the commander can be accomplished. By resources, I mean men, money, material, and facilities -- everything necessary to do the job assigned.

Second, operating programs identify the portions of each activity to be accomplished by subordinate echelons. This is done by recording for the subordinate echelons the objectives, policies, priorities and resources allocated to do the job.

Third, operating programs establish a basis from which actual accomplishment during the year can be measured against that which was planned.

Now let's take a look at what constitutes an operating program.

CHART #3
OPERATING PROGRAM CONTENT

1. BASIC DOCUMENT
2. SCHEDULES
3. OPERATING BUDGET

There are three main parts to an operating program: A basic document, schedules, and the operating budget. The basic document enumerates guidance for the command as a whole and for each subordinate element.

The basic document consists of five parts as shown on Chart #4.

CHART #4
BASIC DOCUMENT

1. CHANGES IN MISSIONS.

2. ACTIVATION, INACTIVATION AND REDEPLOYMENT OF UNITS; PLANNED MILITARY AND CIVILIAN AUTHORIZATIONS; ACTIVATION, INACTIVATION AND STATUS CHANGES OF INSTALLATIONS.

3. ESTIMATED DOLLAR RESOURCE AUTHORIZATION FOR EACH MAJOR ACTIVITY OR BUDGET PROJECT AS APPLICABLE; OBJECTIVES, POLICIES AND PRIORITIES FOR EACH ACTIVITY FOR WHICH GUIDANCE IS REQUIRED.

4. OBJECTIVES, POLICIES AND PRIORITIES FOR INSTALLATION SUPPORT.

5. GUIDANCE ON SUBMISSION OF OPERATING PROGRAMS, PROGRESS REPORTS AND STATEMENTS OF ANALYSIS.

The second component of the operating program consists of the schedules. These schedules show quantitatively by time-phasing (usually by quarters) how the specific annual objectives will be accomplished. In doing this the objectives directed at the command by higher headquarters are broken down by time-phasing for the command as a whole to show when and in what proportion the objectives will be accomplished. These schedules are called directed schedules.

Additional schedules are also contained in the operating programs to indicate individually by subordinate elements when, by time-phasing, they will accomplish their objectives. These schedules are called operating schedules and are used for coordination purposes.

The third main part of the operating program is the operating budget which was formerly called the Budget Execution Plan or BEP. This Operating Budget is a detailed resources plan. It sets forth the funds required to implement the operating program. The elements of this plan are directly related to corresponding elements of the operating program and to the purposes for which funds are requested and received. Briefly, the purpose of the operating budget is to provide a command, agency, installation or activity the means of expressing to higher echelons of command where funds to be made available will be utilized together with the time-phasing for such utilization. In turn, the Department of the Army uses this information to request apportionment of funds from Department of Defense and the Bureau of the Budget. Upon receiving the apportionment of funds, Department of the Army uses the operating budgets as a guide to establish or revise funding programs and for distributing funds to the major commands and agencies.

4. Program and Budget Guidance

At this point I would like to interject an explanation of the document that governs the development of the Operating Programs. This document is known as Program and Budget Guidance. Program and Budget Guidance is prepared by the Army staff and sent to the field three times prior to the start of each fiscal year which it covers. The three issues of the program and budget guidances are known as preliminary, revised and final program and budget guidance. It is from this document that guidance is obtained for the preparation of

operating programs. Program and Budget Guidance includes the information necessary to develop operating programs. As such, it contains for each addressee changes in missions and formulates a basis for specific objectives and resource estimates. Each command and agency that reports directly to and is funded directly by Headquarters, Department of the Army receives Program and Budget Guidance. Examples of these commands and agencies are United States Continental Army Command, Deputy Chief of Staff for Logistics, and each Oversea command, and each of several Department of the Army operating agencies.

Program and Budget Guidance contains control guidance such as strengths and location of units, activations, deactivations and redeployments, estimated military personnel to be authorized, estimated bulk civilian personnel to be authorized and installations to be activated, inactivated or to be changed in status.

It contains guidance by budget classification. Such guidance is expressed in terms of policy changes, quantitative and qualitative objectives, priorities and standards, together with dollars estimated to be made available.

Program and Budget Guidance also contains information with respect to support-type functions to be performed, and administrative and technical instructions relative to program budget submission to Headquarters, Department of the Army. You can see that there is a distinct similarity between Operating Programs and Program and Budget Guidance. In fact the Operating Programs follow the same format as the Program and Budget Guidance. The Program and Budget Guidance actually directs the preparation of the Operating Programs and what will be contained in them.

5. Budget System.

a. Background. What is it? Primarily the budget system is designed to determine what funds the Army needs. It is a system to obtain these funds, and to distribute and control them. The basis for the Army Budget is developed through the Army Program System. The Army Program System is intended to establish a sound basis for the formulation, justification, and execution of the Army Budget in support of the approved program which is made up of the five control programs.

The Budget System is actually composed principally of two phases, the formulation phase and the execution phase. Let's discuss these two phases.

b. Budget Formulation.

The formulation phase involves the processes of developing fund requirements of the Army in support of approved plans and programs. It also involves obtaining appropriation legislation from the Congress to include the signature by the President making it law. Now let's take a look at this phase or process and follow it through.

The budget formulation process —

You will note that the Secretary of Defense issues planning assumptions and guidelines. You will recall this action coming out of the Joint Strategic Objectives Plan from the Joint Chiefs of Staff to the Secretary of Defense. Actually these instructions may be received at any time as the situation dictates.

This entire process as planned starts approximately eighteen months prior to the start of the fiscal year for which intended. The control programs are developed during this time as the basis for the budget formulation process.

The development of the control programs is initiated by the Chief of Staff through the Control Program Directive which is directed to the Army Staff. As a result of this directive the Army Staff develops and coordinates the five control programs and Preliminary Program and Budget Guidance. With the control programs and Preliminary Program and Budget Guidance as a basis, the Chief of Staff directs the Comptroller of the Army to develop the Army Budget.

The Comptroller of the Army issues the Budget Formulation Directive to the Army Staff. This directive calls for the preparation of a staff-developed budget by the Army Staff. United States Continental Army Command and Overseas Commands are informed of the contemplated funds which may be made available to them through Preliminary Program and Budget Guidance. The major field commands make comments as to what effect these funds will have on hem as far as accomplishing their missions. These comments from the field are submitted in the form of a Commander's Statement and Budget Summary to Headquarters, Department of the Army. These comments are taken into consideration; however, it should be noted that the Army budget estimate is basically a staff developed budget from the information on hand in the staff and from appropriate guidance.

As each element of the Army staff completes its portion of the budget estimate it is given a detailed and critical review by the Office of the Comptroller of the Army and a final review by the Budget Advisory Committee.

The Budget Advisory Committee is a permanent committee made up of permanent voting representatives from Office, Comptroller of the Army; Office, Deputy Chief of Staff for Personnel; Office, Deputy Chief of Staff for Operations; Office, Deupty Chief of Staff for Logistics; Office, Chief of Research and Development; and Office, Assistant Chief of Staff for Intelligence. Voting representatives

THE BUDGET FORMULATION PROCESS
(Jan - Jan - 12 Months)

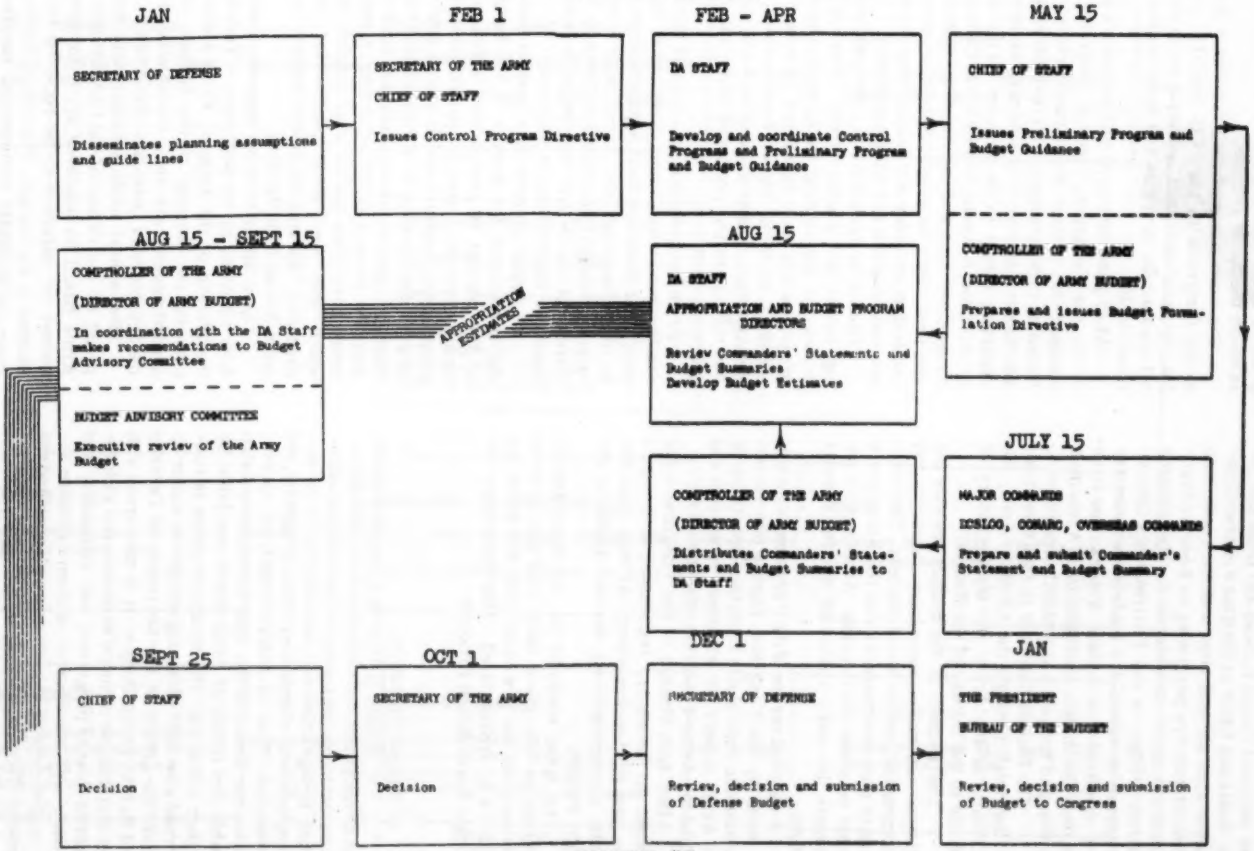

JAN
SECRETARY OF DEFENSE
Disseminates planning assumptions and guide lines
FEB 1
SECRETARY OF THE ARMY
CHIEF OF STAFF
Issues Control Program Directive
FEB - APR
DA STAFF
Develop and coordinate Control Program and Preliminary Program and Budget Guidance
MAY 15
CHIEF OF STAFF
Issues Preliminary Program and Budget Guidance
COMPTROLLER OF THE ARMY
(DIRECTOR OF ARMY BUDGET)
Prepares and issues Budget Formulation Directive
AUG 15
DA STAFF
APPROPRIATION AND BUDGET PROGRAM DIRECTORS
Review Commanders' Statements and Budget Summaries
Develop Budget Estimates
AUG 15 - SEPT 15
COMPTROLLER OF THE ARMY
(DIRECTOR OF ARMY BUDGET)
In coordination with the DA Staff makes recommendations to Budget Advisory Committee
BUDGET ADVISORY COMMITTEE
Executive review of the Army Budget
APPROPRIATION ESTIMATES
JULY 15
MAJOR COMMANDS
USCINCEUR, CONARC, OVERSEAS COMMANDS
Prepare and submit Commander's Statement and Budget Summary
COMPTROLLER OF THE ARMY
(DIRECTOR OF ARMY BUDGET)
Distributes Commanders' Statements and Budget Summaries to DA Staff
SEPT 25
CHIEF OF STAFF
Decision
OCT 1
SECRETARY OF THE ARMY
Decision
DEC 1
SECRETARY OF DEFENSE
Review, decision and submission of Defense Budget
JAN
THE PRESIDENT
BUREAU OF THE BUDGET
Review, decision and submission of Budget to Congress

CHART #5

from National Guard Bureau and from the Office, Assistant Chief of Staff for Reserve Components also sit and vote with the committee whenever matters pertaining to Reserve Components are under consideration. The Director of Army Budget is the Chairman Ex Officio. Necessary revisions are made in the estimates as a result of this review. You can see from this, that the Budget Estimate is an Army staff position and not just a comptroller position.

The Budget Estimate is then forwarded for approval through the Chief of Staff, the Secretary of the Army and the Secretary of Defense to the Bureau of the Budget.

The Bureau of the Budget reviews the estimate and makes necessary decisions and recommendations to the President. The estimate is then incorporated into the President's annual message to Congress. At this point the estimate becomes known as the President's Budget.

A detailed review of the President's Budget is made by the Congress. During this review responsible individuals from the Department of the Army appear as witnesses to explain and defend the Army's position. (See Chart 6).

After both Houses of the Congress have passed the necessary legislation, it is signed into law by the President. At this time the funds, as appropriated, become known as the Army Budget.

The final approval by the President is planned to take place each year just prior to the start of the new fiscal year for which the funds are appropriated. This completes the Budget Formulation Process.

c. Budget Execution.

The Budget Execution Process involves the development and control of detailed fund requirements for the conduct of operations undertaken by agencies and installations in the accomplishment of approved plans, programs, and schedules. This is accomplished, of course, within the limits of the appropriations and also within the limits of funds made available by higher authority. The execution phase is concerned also with obtaining obligation authority from the Office of the Secretary of Defense and Bureau of the Budget. It is concerned with the distribution of funds in consonance with approved plans, programs, and schedules, and finally with the control of them to insure accomplishment of objectives as planned and approved. The next chart graphically portrays the Budget Execution Process. (See Chart 7).

The Budget Execution Process –

You will note that this process begins six months prior to the start of the fiscal year for which the funds are intended. It starts with the submission of the President's Budget to the Congress. As such it overlaps the formulation process and continues through the fiscal year in which the funds are used.

The submission of the President's Budget to the Congress is the "GO AHEAD" signal for the development of operating programs by all commands, services and agencies that receive funds.

After presentation of the President's Budget to the Congress, control programs are changed to reflect the latest information. Based on these changes, the (revised) program and budget guidance is issued to those agencies reporting direct to Department of the Army. At this time, however, United States Continental Army Command and the Overseas Commands who previously received preliminary program and budget guidance are issued what is termed revised program and budget guidance.

Operating agencies (i.e., agencies receiving funds) now prepare their operating programs for the coming fiscal year. Operating programs are then submitted by subordinate echelons to their higher headquarters, with Headquarters, Department of the Army receiving the operating programs from the major operating agencies.

From the information received in the operating programs, from experience, data on hand, and from the final appropriations made by the Congress, the Army staff prepares request through Department of Defense to the Bureau of the Budget for obligation authority known as Apportionment Requests.

An apportionment is a determination by the Director of the Bureau of the Budget as to the amount of obligations which may be incurred during a specific period under an appropriation, contract authorization, other statutory authorization, or a combination thereof. Perhaps, an over-simplification would be to describe it as a notification from a bank that funds have been put in your account against which you may write checks for specific purposes. An apportionment request is a request for such notification.

These apportionment requests are carefully reviewed by the Secretary of Defense and the Bureau of the Budget. Final approval is give by the Bureau of the Budget, and the apportionments are made through the office of the Secretary of Defense to the Army.

The annual funding program is new prepared by the Office of the Comptroller of the Army based on approved apportionments recieved or expected to be received from the Bureau of the Budget. The annual funding program is carefully reviewed by the Budget Advisory Committee to insure that it contemplates the best possible use of the fund availability within approved apportionments and approved plans. Thus, funds made available are decided on by an Army staff position and not the Comptroller of the Army alone.

CONGRESSIONAL ACTION ON APPROPRIATIONS

(Jan - Jun - 6 Months)

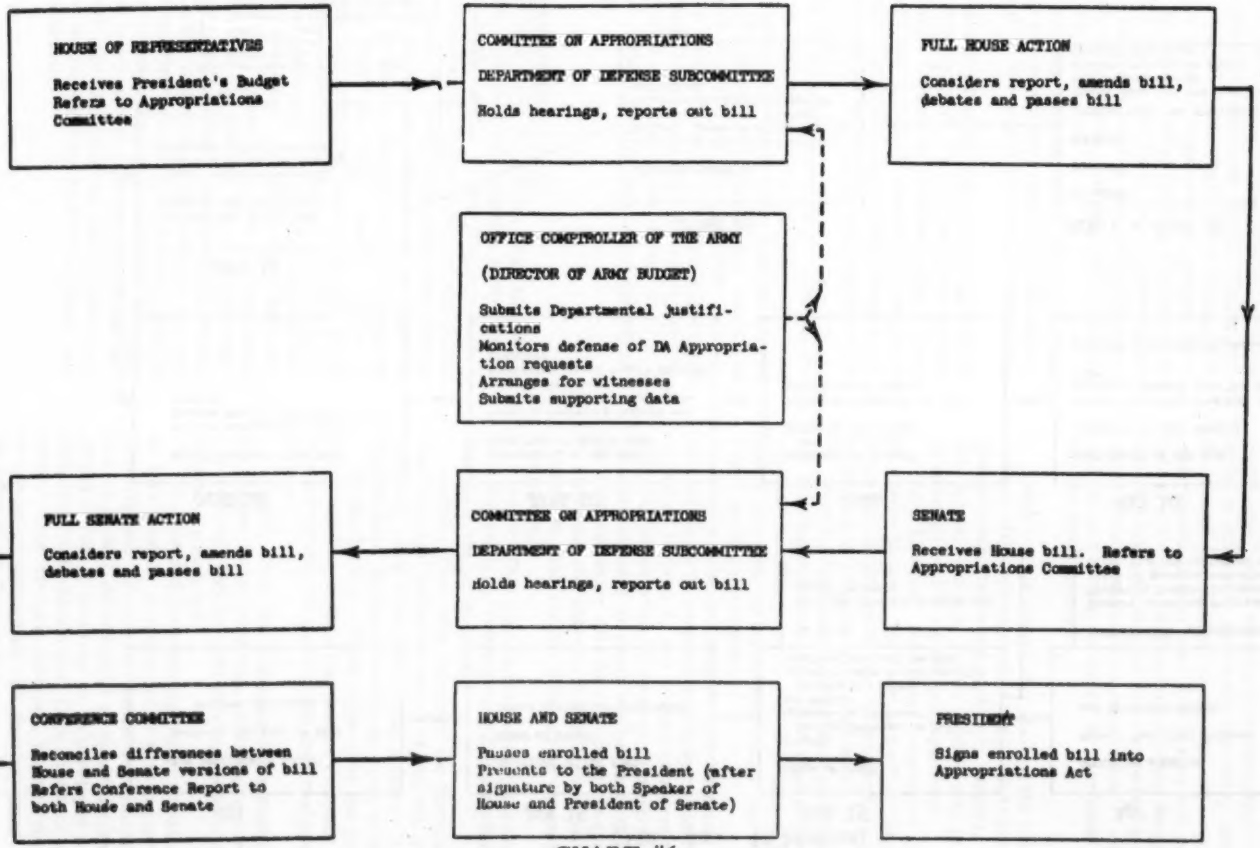

HOUSE OF REPRESENTATIVES
Receives President's Budget
Refers to Appropriations Committee
COMMITTEE ON APPROPRIATIONS
DEPARTMENT OF DEFENSE SUBCOMMITTEE
Holds hearings, reports out bill
FULL HOUSE ACTION
Considers report, amends bill, debates and passes bill
OFFICE COMPTROLLER OF THE ARMY
(DIRECTOR OF ARMY BUDGET)
Submits Departmental justifications
Monitors defense of DA Appropriation requests
Arranges for witnesses
Submits supporting data
FULL SENATE ACTION
Considers report, amends bill, debates and passes bill
COMMITTEE ON APPROPRIATIONS
DEPARTMENT OF DEFENSE SUBCOMMITTEE
Holds hearings, reports out bill
SENATE
Receives House bill. Refers to Appropriations Committee
CONFERENCE COMMITTEE
Reconciles differences between House and Senate versions of bill
Refers Conference Report to both House and Senate
HOUSE AND SENATE
Passes enrolled bill
Presents to the President (after signature by both Speaker of House and President of Senate)
PRESIDENT
Signs enrolled bill into Appropriations Act

CHART #6

THE BUDGET EXECUTION PROCESS
(Jan - Jun - 18 Months)

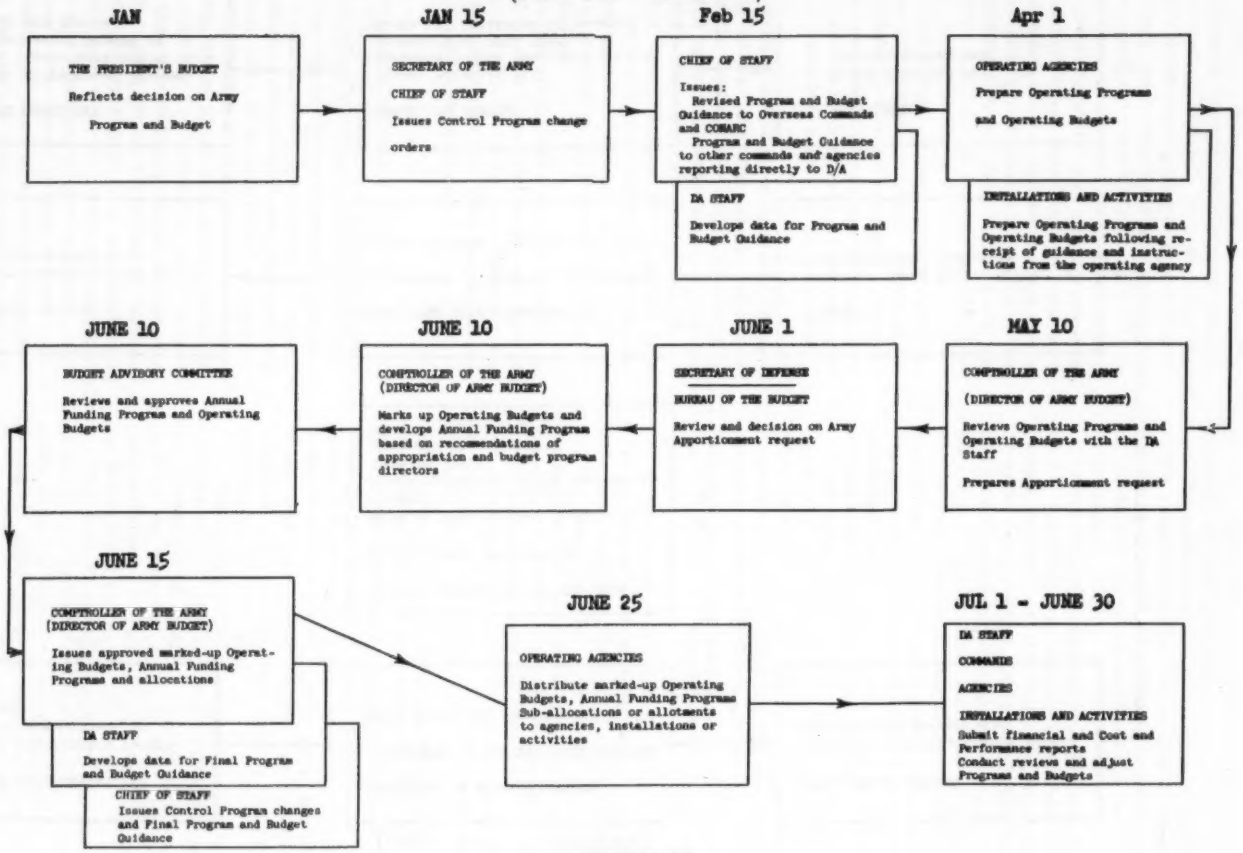

JAN
THE PRESIDENT'S BUDGET
Reflects decision on Army Program and Budget
JAN 15
SECRETARY OF THE ARMY
CHIEF OF STAFF
Issues Control Program change orders
Feb 15
CHIEF OF STAFF
Issues:
Revised Program and Budget Guidance to Overseas Commands and CONARC
Program and Budget Guidance to other commands and agencies reporting directly to D/A
DA STAFF
Develope data for Program and Budget Guidance
Apr 1
OPERATING AGENCIES
Prepare Operating Programs and Operating Budgets
INSTALLATIONS AND ACTIVITIES
Prepare Operating Programs and Operating Budgets following receipt of guidance and instructions from the operating agency
MAY 10
COMPTROLLER OF THE ARMY
(DIRECTOR OF ARMY BUDGET)
Reviews Operating Programs and Operating Budgets with the DA Staff
Prepares Apportionment request
JUNE 1
SECRETARY OF DEFENSE
BUREAU OF THE BUDGET
Review and decision on Army Apportionment request
JUNE 10
COMPTROLLER OF THE ARMY
(DIRECTOR OF ARMY BUDGET)
Marks up Operating Budgets and develops Annual Funding Program based on recomendations of appropriation and budget program directors
JUNE 10
BUDGET ADVISORY COMMITTEE
Reviews and approves Annual Funding Program and Operating Budgets
JUNE 15
COMPTROLLER OF THE ARMY
(DIRECTOR OF ARMY BUDGET)
Issues approved marked-up Operating Budgets, Annual Funding Programs and allocations
DA STAFF
Develope data for Final Program and Budget Guidance
CHIEF OF STAFF
Issues Control Program changes and Final Program and Budget Guidance
JUNE 25
OPERATING AGENCIES
Distribute marked-up Operating Budgets, Annual Funding Programs Sub-allocations or allotments to agencies, installations or activities
JUL 1 - JUNE 30
DA STAFF
COMMANDS
AGENCIES
INSTALLATIONS AND ACTIVITIES
Submit financial and Cost and Performance reports
Conduct reviews and adjust Programs and Budgets

CHART #7

At this point the control programs are revised in consonance with the annual funding program. Funds are then allocated (sub-allocated in the case of special operating agencies) in accordance with the annual funding program, and the final Program and Budget Guidance is issued. Operating programs which were previously submitted to Headquarters, Department of the Army, are reviewed, analyzed and approved and returned to the major commands, services, and agencies reflecting the latest guidance.

You will note that these last mentioned actions are scheduled to take place immediately prior to the fiscal year which commences 1 July.

The operating agencies now distribute the funds they receive. This is done from echelon to echelon right down to installations. These also are paper credits authorizing obligation of funds. The final Program and Budget Guidance causes all of the operating programs to be revised also.

As is planned, immediately prior to the start of each fiscal year all of the operating programs are in consonance with the overall Army Program, and reflect the resources available to carry out the objectives.

The last portion of this chart depicts the reporting, review, and analysis, and adjustment procedures that take place during the fiscal year to insure control and necessary adjustments.

5. Management Structure

At this point the reader may be asking how the details of the budget system are related to the details of the program system which it supports. First of all, both the budget system and the program system use common accounts so that any portion of the budget is directly related to the portion of the program which it supports. This common system of accounts is officially known as the Army Management Structure, and is established in detail by regulation. Second, the fund requirements established and those made available are in direct consonance with the objectives to which they are related. Third, the accomplishment of the planned objectives and the use of funds for such accomplishment are reviewed together as related to each other. This is done systematically and periodically throughout the year at all echelons to insure accomplishment of missions and to take corrective action when necessary to insure accomplishment.

6. Program Budget Cycle

Now let's take a look at the overall sequence of events concerning programming and budgeting.

Chart #8 depicts the ideal program/budget cycle.

It shows in sequence most of the major steps which have already been discussed. As such, it may help to clarify the many items mentioned and to weld them into one overall understandable process. The reader will note that it covers a total period of thirty months. It starts eighteen months prior to the beginning of the fiscal year under consideration. I shall discuss each step in order as numbered in the left-hand column.

Step 1. This shows the start of the whole system with the approval of very broad control program objectives and summary budgets. Do not forget that this action follows and is in consonance with the mid-range planning.

Step 2. From the broad objectives and summary budgets, the Chief of Staff is able to issue the directive to the Army staff for the preparation of five control programs.

Step 3. This step shows the preparation of the five control programs each year starting eighteen months prior to the beginning of the fiscal year and taking approximately four and a half months to complete.

Step 4. The preparation and issuance of the preliminary program and budget guidance is shown in Step 4, and is done concurrently with the preparation of the control programs. This preliminary program and budget guidance contains summary data for operating agencies. It requires the submission of Commander's Statements and Budget Summaries by major commands.

Step 5. This step shows the submission of the Commander's Statements and Budget Summaries to the Army staff.

Step 6. This step indicates the formulation of budget estimates which as you will recall are staff developed from guidance and current information on hand in the Army staff.

Steps 7 and 8. These steps show the process of review of the Army budget estimate as it is forwarded for inclusion in the President's Budget.

Step 9. Once the President has submitted his budget to the Congress, control programs are revised, and revised program and budget guidance is sent out.

The revised Program and Budget Guidance at this time is in more detail than the preliminary one. It contains sufficient information to permit development of operating programs which it requires to be developed and submitted to Headquarters, Department of the Army. This revised guidance, you will note, is issued approximately six months prior to the start of the fiscal year.

Steps 10 and 11. These steps indicate the preparation of the operating programs by all commands, services and agencies that receive funds. The operating programs of each echelon

ARMY PROGRAM / BUDGET CYCLE

STEP	ACTION AGENCY	PROGRAMMING AND BUDGETING ACTIONS
1	S/A & C of S	APPROVE CONTROL PROGRAM OBJECTIVES AND SUMMARY BUDGETS
2	C of S	ISSUE CONTROL PROGRAM DIRECTIVE
3	DA STAFF	PREPARE AND ISSUE CONTROL PROGRAMS
4	DA STAFF	PREPARE AND ISSUE PRELIMINARY PROGRAM AND BUDGET GUIDANCE TO OVERSEA COMMANDS AND TO THE U S CONTINENTAL ARMY COMMAND
5	OS COMMANDS AND USCONARC	PREPARE AND SUBMIT COMMANDER'S STATEMENT AND BUDGET SUMMARY TO HEADQUARTERS, D/A
6	DA STAFF	DEVELOP BUDGET ESTIMATES
7	S/A & CofS	REVIEW AND APPROVE BUDGET ESTIMATES
8	OSD/BOB	REVIEW OF ARMY BUDGET
9	DA STAFF	PREPARE AND ISSUE: a. REVISED PROGRAM AND BUDGET GUIDANCE TO OVERSEA COMMANDS AND USCONARC b. PROGRAM AND BUDGET GUIDANCE TO OTHER COMMANDS AND AGENCIES REPORTING DIRECT TO HEADQUARTERS, D/A
10	COMMANDS & AGENCIES REPORTING DIRECT TO HEADQUARTERS, D/A	PREPARE AND SUBMIT OPERATING PROGRAMS TO HEADQUARTERS, D/A
11	SUBORDINATE COMMANDS, AGENCIES & INSTALLATIONS	PREPARE OPERATING PROGRAMS
12	DA STAFF	REVIEW OPERATING PROGRAMS RECEIVED IN STEP 10
13	S/A & C of S	REVIEW AND APPROVE APPORTIONMENT REQUEST
14	OSD/BOB	APPORTION APPROPRIATIONS
15	DA STAFF	ISSUE FINAL PROGRAM AND BUDGET GUIDANCE TO COMMANDS AND AGENCIES REPORTING DIRECT TO HEADQUARTERS, D/A
16	COMMANDS, AGENCIES & INSTALLATIONS	REVISE OPERATING PROGRAMS
17	COMMANDS, AGENCIES & INSTALLATIONS	EXECUTE OPERATING PROGRAMS
18	COMMANDS, AGENCIES & INSTALLATIONS	REVIEW AND ANALYSIS

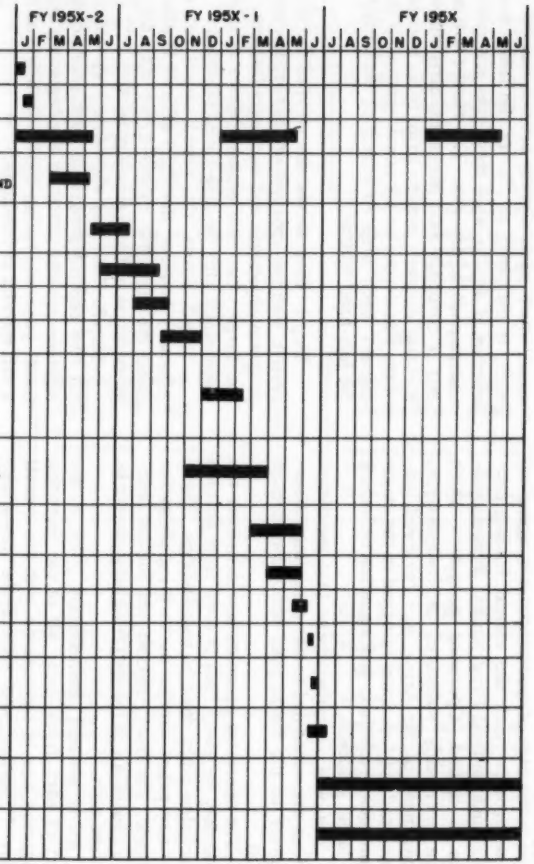


CHART #8

are submitted to the next higher headquarters, with those of the major commands and separately funded agencies being submitted to Headquarters, Department of the Army.

Step 12. This step depicts the review of the operating programs by the Army staff. Also at this time the Army staff prepares apportionment requests which are carefully reviewed to insure that they are in consonance with funds appropriated.

Steps 13 and 14 are the forwarding and review of apportionment requests.

Step 14 indicates the apportionment of the appropriations by the Bureau of the Budget.

Step 15. Based on the funds apportioned, the Army staff now prepares final program and budget guidance to the commands and agencies reporting direct to Headquarters, Department of the Army. This final program and budget guidance is in detail and is in agreement with appropriations and apportionments. This action is scheduled to take place just prior to the start of the fiscal year and is so scheduled to permit revision of the operating programs as shown in Step 16.

Steps 17 and 18 depict, during the fiscal year of operation, the execution of the operating programs and the quarterly review and analysis that take place.

7. Summary

In summary I would like to briefly review the main aspects of this article.

First: The program system is based on the objectives of the Army mid-range planning.

Second: The five control programs developed by the Army staff constitute the overall Army program to manage its peactime activities.

Third: Each command, service, and agency that receives funds develops an operating program in order to better manage its own activities. These operating programs are in consonance with the Army program.

Fourth: The budget system is designed to support the Army's program and its approved objectives.

Fifth: The budget formulation process is designed to formulate Army fund requirements and to obtain appropriation legislation from the Congress.

Sixth: The Budget Execution Process is designed to obtain funds from higher authority as appropriated by the Congress. It is designed to distribute these funds in accordance with approved programs and to control these funds.

PLUGBOARD THINKING

Mr. Roscoe L. Norman, Colonel, USAF, Comptroller, Memphis AF Depot President, Memphis Chapter, ASMC

There is a continuing need for Comptroller personnel to "beat the drum" for management in general to orient its thinking toward annual changes in plans and programs in lieu of the "day-to-day crisis type" changes. With the continual expansion and use of EDPE, it is almost impossible to make rapid, frequent changes to programs and systems on our computers. Nevertheless, in many cases, we are flooded with changes which in turn preclude us from turning out reasonably accurate and timely management information.

Too many of our managers are guilty of what I like to call "plugboard thinking." Many managers think only in terms of EAM and their related control panels or plugboards. Changes to systems which are processed by EDPE are no longer as easy as pulling wires from the plugboard. Much longer lead time is required and the need for stabilization, standardization and consistency of thinking is greater than ever.

For some years now, users of the products of Data Processing activities have been accustomed to making frequent changes in reports or other products desired from this function. Many times this has caused crash efforts on the part of Data Processing in order to meet required deadlines. However, the Data Processors have usually been able to meet changes in requirements because of the comparatively small effort involved in the wiring of control panels, machine setup, etc. With the advent of EDPE, these changes are no longer practical and, in many instances, are not possible. Personnel involved in the implementation of new systems or reports must devote considerable thinking to the end product desired, must give more thought to the possible impact on other organizational components, and must have complete coordination with all offices of collateral interest before a programming effort is implemented. The introduction of changes to a system after programming has caused undue confusion and an inordinate delay in "getting the show on the road." Once the system has been implemented, the users should be willing to live with it at least a year.

PLAIN TALK ON UTILITIES CONSERVATION

Mr. Joseph M. Statt, Utilities Conservation Assistant
Bureau of Yards and Docks

HONESTY IN LITTLE THINGS IS NOT A LITTLE THING. IN PARAPHRASE 2,500 YEARS LATER WE SAY, CONSERVATION IN LITTLE THINGS IS NO SMALL ITEM EITHER. Please consider the waste of natural resources such as a drop of oil and a drop of fresh water, small and common-place items, true, but without them — no wheels will turn, no ships will cruise, no planes will fly, and no satellites will orbit.

Victory and prosperity are ours only, because in the past our country has been blessed with an ample supply of oil, fresh water, and other natural resources necessary to meet our national energy requirements. In the last decade, however, extensive mechanization at home and worldwide participation of armed services has depleted our reserves and by rough estimate our energy utilization has quadrupled. In the same period the discovery of new reserves has not kept pace with the energy demand; so to keept afloat WE MUST CONSERVE.

Nuclear power has been highly publicized and it is important, but it is only a drop in the energy demand bucket. Solar energy may provide future reserves, but its utilization will take many years to develop. At present the elimination of waste and reduced consumption are the answer.

Conservation of fuel, utilities services, and manpower is feasible by application of good housekeeping techniques and efficient management procedures. DOD Instruction 4165.9 of 23 June 1955 sparked the organization of a Navy-wide Utilities Conservation Program. In UCP through task force teams of engineers in each naval district, we are in close contact with fixing, firing, and financing. Small repairs, better fuel combustion, building heat control, and full recovery of true costs for utilities services will snowball into large economies. In the Naval Establishment, just a 10 per cent reduction in utilities waste will provide recurring annual economies estimated at $20 million. At this writing about $11 million in potential economies are now possible at little or no investment as a result of about 200 major activity surveys and survey recommendations initiated under the Utilities Conservation Program. Implementation status reports show that the UCP savings estimates are conservative. Also many intangible benefits, such as better continuity, reliability and flexibility of utilities operation are being realized after the visits of UCP survey teams.

Among the many management aids furnished to commanding officers of naval activities by UCP survey teams, several are worthy of mention here. Foremost are NAVCOMPT Forms 2046 and 2047 now being printed (and based on NAVDOCKS Test Forms 205 and 205A respectively). These are quarterly or a monthly operating and expense summaries, including (1) utilities quantities generated, purchased, distributed, and sold to other activities, (2) expense of utilities generation, purchase, treatment, and distribution, (3) maintenance costs, (4) true unit costs vs. established utilities rates at the activity, (5) forecasts or target data for utilities consumption, and (6) fuel quantities and fuel costs. Diligent preparation of these forms and frequent evaluation of data will improve management and reduce costs.

UCP survey reports are also utilities management aids. The preparation of these reports involves about four man-weeks of field study and another four man-weeks in evaluation of data, savings estimates, immediate accomplishment and long-range economy recommendations, and target graphs or statistical forecasts of utilities generation, export and consumption under ideal conditions. The value of utilities tarfets can be compared to the incentive provided by a par score in golf. The target objective may not always be reached, but the challenge is a tremendous stimulant to better performance.

Task force spirit, team effort, and enlightened leadership to assist management are the contributing factors to the success of this Navy management program. The counsel of the Army Department and the Air Force Department have also been most valuable in getting UCP off the ground.

The rising costs of fuel, labor, and purchased utilities are consuming much of the UCP savings at present. With pardonable pride, however, we point to the reduced "coal" pile. In FY 1958 Navy's contribution to our national energy reserve was:

— 110 thousand tons of coal
— 12 million gallons of fuel oil and
— 617 million cubic feet of natural gas.

—Little things in conservation or honesty are not small items!

MANAGEMENT ANALYSIS IN HEADQUARTERS UNITED STATES FORCES, JAPAN

Lt. Col. L. P. Henslee, Director of Management Analysis, Hq. United States Forces, Japan

EDITOR'S NOTE:

It is noted that the general content of this article is in the area of the management sciences and treats the item problems as susceptible to solution through operating or "line" channels whereas comptrollership primarily serves management in a "staff" capacity to resolve the financial management aspects of such problems.

The editorial staff of this publication believes that comptrollership personnel are interested in articles which outline procedures under either the "line" or "staff" concept and has included the following article as a matter of general management interest. The evaluation of such procedures should be included in articles submitted by the contributors and are not for editorial comment. The editor is most interested in receiving additional material which will contribute to an understanding and coordinated effort in the above area irrespective of individual management's election to utilize the "staff" or "line" approach to resolve financial management problems.

ABOUT THE AUTHOR:

Lt Col. Lem P. Henslee, 9524A, is Director of Management Analysis, Hq USFJ, the tri-service unified command which coordinates the activities of the U.S. Army, Navy and Air Force in Japan. Colonel Henslee has 16 years military service which began as Private in the Finance Office, Brooks Field, Texas in January 1942. The last ten years have been in Air Force Comptroller assignments. Following a tour in the Pentagon and the Comptroller course at Maxwell AFB, Colonel Henslee was Wing Comptroller at Scott AFB. When Hq, Crew Training Air Force was activated, he became Director of Management Analysis. Following two years in Headquarters, Far East Command, Tokyo, as an Economic Analyst, he was assigned to his present position in July 1957.

Colonel Henslee holds a MA degree in Business Administration from Indiana University, and a BA degree in Business Administration from Hardin-Simmons University. He has attended the George Washington University Commander's Management course and other service schools.

MANAGEMENT ANALYSIS – HEADQUARTERS, UNITED STATES FORCES, JAPAN

The term "Management Analysis" is a military term which has reference to the planning and control functions of management. A simple approach to a consideration of Management Analysis in the military is to compare it against the backdrop of planning and control techniques used in commerce and industry.

WHAT IS MANAGEMENT ANALYSIS IN INDUSTRY?

The use of planning sections, control sections and other organizational segments to assist the top management varies among corporations. However, the Koppers Company in Pittsburg, Pennsylvania, may be used as an example. The following charts have been used by Kopper's to explain the purpose and function of their "Control Section." (See figures 1, 2, 3, 4).

MANAGEMENT ANALYSIS IN THE MILITARY:

There are, of course, many differences between military and commercial operations. Military leaders however, have not lagged behind their industrial counterparts in the application of scientific management principles. In fact, the military has been credited with certain pioneer achievements, such as in the field of organization. The following quotations from military spokesmen show this recognition of management principles:

> "The Army must hold down administrative costs. To this end, we look to improved management to assure the primary purpose of having a combat ready Army."
>
> General Maxwell D. Taylor
> Chief of Staff, United States Army

> "Management control is the key to efficiency in the Strategic Air Command. Careful programming and constant evaluation of progress are as indispensable to us as to any large, decentralized industrial firm. We begin management control with a clear objective in sight. We program every detail required to meet that objective. We schedule every phase of the program. Efficient management controls and the indoctrination of our people will bring about a continuing growth of the profit yield of the Strategic Air Command and thus greater security for our nation."
>
> General Curtis E. Le May
> Vice Chief of Staff, United States Air Force
> (Former Commander Strategic Air Command)

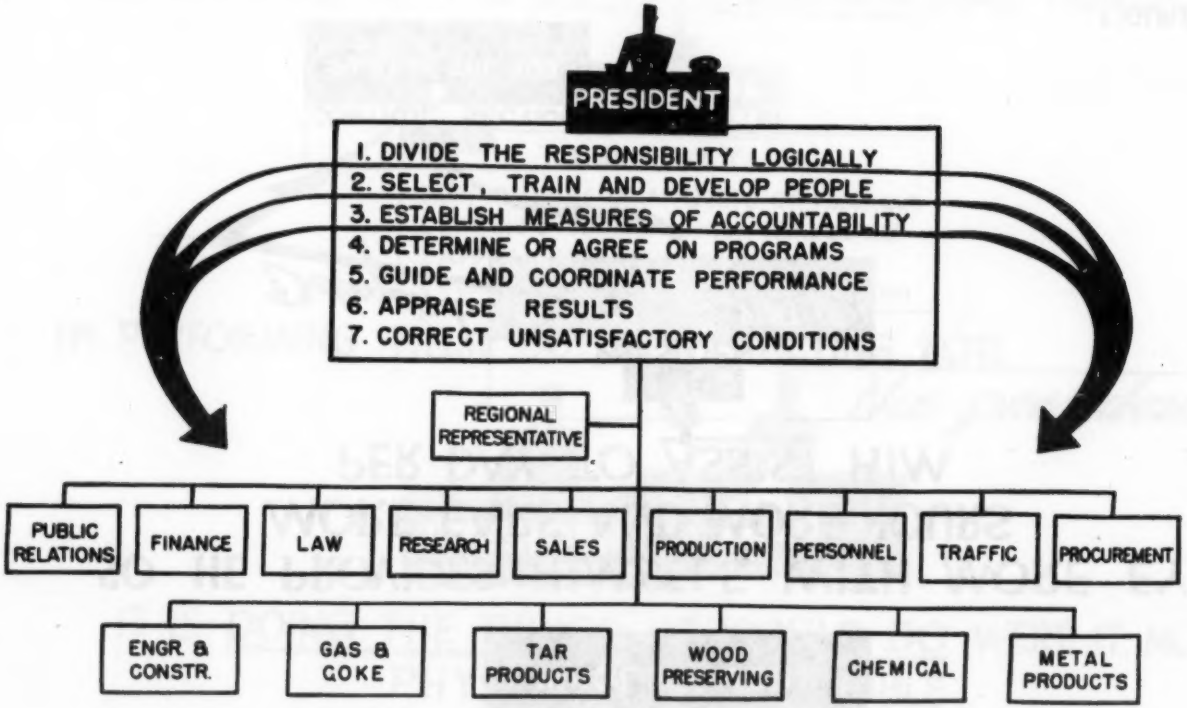
THE EXECUTIVE JOB

to Organize • to Deputize • to Supervize • to Energize

1. DIVIDE THE TOTAL RESPONSIBILITY INTO LOGICAL ASSIGNMENTS
2. SELECT, TRAIN & DEVELOP COMPETENT PEOPLE
3. ESTABLISH MEASURES OF ACCOUNTABILITY
4. DETERMINE OR AGREE ON PLANS & PROGRAMS FOR ATTAINMENT
5. GUIDE AND COORDINATE PERFORMANCE
6. APPRAISE RESULTS
7. TAKE STEPS TO CORRECT UNSATISFACTORY CONDITIONS

THESE ARE THE DUTIES OF EVERY SUPERVISOR, INCLUDING THE PRESIDENT

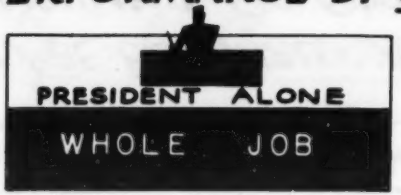
FIGURE No. 1



THE FIRST THREE ARE ESSENTIALLY ACCOMPLISHED IN THE ESTABLISHMENT OF ORGANIZATION AND MANNING ITS STRUCTURE

FIGURE No. 2

THE EXTENT OF THE REMAINING FOUR ARE BEYOND PERFORMANCE BY ONE MAN POWER



SO HE PROVIDES HIMSELF WITH MORE EYES, MORE EARS AND MORE HOURS PER DAY TO ASSIST HIM

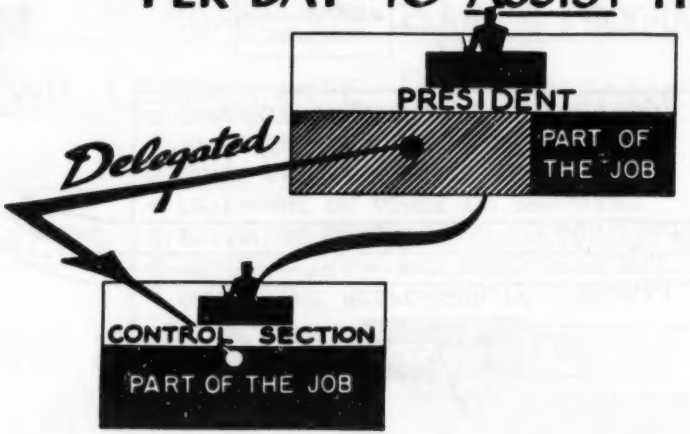


FIGURE No. 3

THE DUTIES OF THE CONTROL SECTION ARE THEREFORE:

IN PERFORMING THESE DUTIES IT IS ACTING FOR *the president*

IT IS DOING THE THINGS HE WOULD DO WERE IT NOT PHYSICALLY IMPOSSIBLE

FURTHER, IF PROPERLY SUPERVISED AND TRAINED, IT IS DOING THEM THE WAY HE WOULD DO THEM.

FIGURE No. 4

All three services have designated some organizational segment to assist the Commander in exercising his management responsibility. In the Air Force, the Management Analysis Section of the Comptroller's office has been charged with this responsibility. The following quotation from the Department of the Air Force "Comptroller News", July 57 describes this function as follows:

> "The primary function of any Management Analysis organization is to provide the Commander or top level decision-making personnel with across-the-board information so that they can better manage the operation of the organization".

Comptroller News
Department of the Air Force
Washington, D. C. July 57

It is the responsibility of Management Analysis to assist the Commander and staff to:

1. Determine programs.
2. Analyze internal consistency of programs (Program Analysis).
3. Measure achievement vs. programs (Progress Analysis).
4. Isolate areas for corrective action.

In Headquarters United States Forces, Japan an unofficial committee of representatives of each "J" Section, provides program data and reports to the Management Analysis Section. There it is charted, and presented to the Commander and staff in the monthly "Commander's Digest".

The application of Management Analysis in the politico - military area of United States Forces, Japan is unique. This is because the Unified Command Headquarters is concerned with political as well as the military problems. The following chart shows the relationships among our military organizations in Japan, the American Embassy, and the Japanese Government. In addition, there are two committees engaged in policy determinations which effect the mission of the U. S. Forces in Japan. They are the "Joint Committee", whose U. S. representative is Rear Admiral L. C. Quiggle, Deputy Chief of Staff, Hq USFJ, and the "Japan-American Committee on Security", headed on the American side by Ambassador MacArthur. (See figure 5).

MANAGEMENT ANALYSIS OF MILITARY ACTIVITIES IN HQ USFJ

As a prelude to discussion of Management Analysis functions in the political area, it is well to consider the military area. The Commander of United States Forces, Japan exercises "authoritative coordination" over service components located in Japan but is responsible to the Commander in Chief, Pacific. It is necessary to obtain the programs of all three services in Japan, and to measure progress against them in order to insure that U.S. military aims are carried forward. For example, it is necessary to allocate available Government Housing to all three services. There is sufficient government housing for only half of the field requirements. (As of 30 Nov 57, 20,957 housing units were required and only 11,265 were available - 54%). More families were in private rentals (13,710) in Japan than were in Government quarters (11,252) as of 30 Nov 57. Even so, this situation has improved since January 57, when the required number of units were 18% greater, (24,663). It is not possible to utilize fully the Government Housing available, due to time required by engineering and billeting sections between family moves. At the same time there were 764 Government houses vacant, representing a loss to the U.S. Government of $80,220. In the Tokyo area, there were 241 sets of quarters vacant, a loss of $25,305. The housing picture should improve, however, with the $17 million housing program financed through sale of U.S. agricultural surplus commodities. As of 30 Nov 57, 683 units of the 1,700 programmed had been completed.

An example of joint service concern is in interservice supply support. During the six month period from January through June 1957, approximately $85 million of supplies were transferred among the three services in the Far East area. Another example is the return of real estate areas and facilities from the custody of the three services to the Japanese Self Defense Force or the Government of Japan. A major area of concern is the U. S. Force or to the Government of Japan. A major area of concern is the U. S. position regarding wages, hiring and firing of Japanese Nationals employed by the U. S. Forces. On 31 Oct. 57 there were approximately 130,000 Japanese Nationals employed, at a monthly cost to the United States of approximately $11 million.

	Number	Monthly Cost
Master Labor Contract Employees	113,660	$ 9,812,362
Direct Hire	16,187	$ 837,364
Total Japanese Nationals	129,847	$10,649,726

The Commander, U.S. Forces, Japan also assists service components in reaching local decisions concerning transfers of responsibility for welfare activities, housing, dependent schools, etc.

From these examples, it is apparent that long-range service programs must be available to the Unified Command Headquarters. Reports are necessary, in order to measure program progress and to plan effectively. Forecasts of future positions must be based on the best available information in order to anticipate program lags and to initiate corrective action.

POLITICO-MILITARY ORGANIZATION IN JAPAN

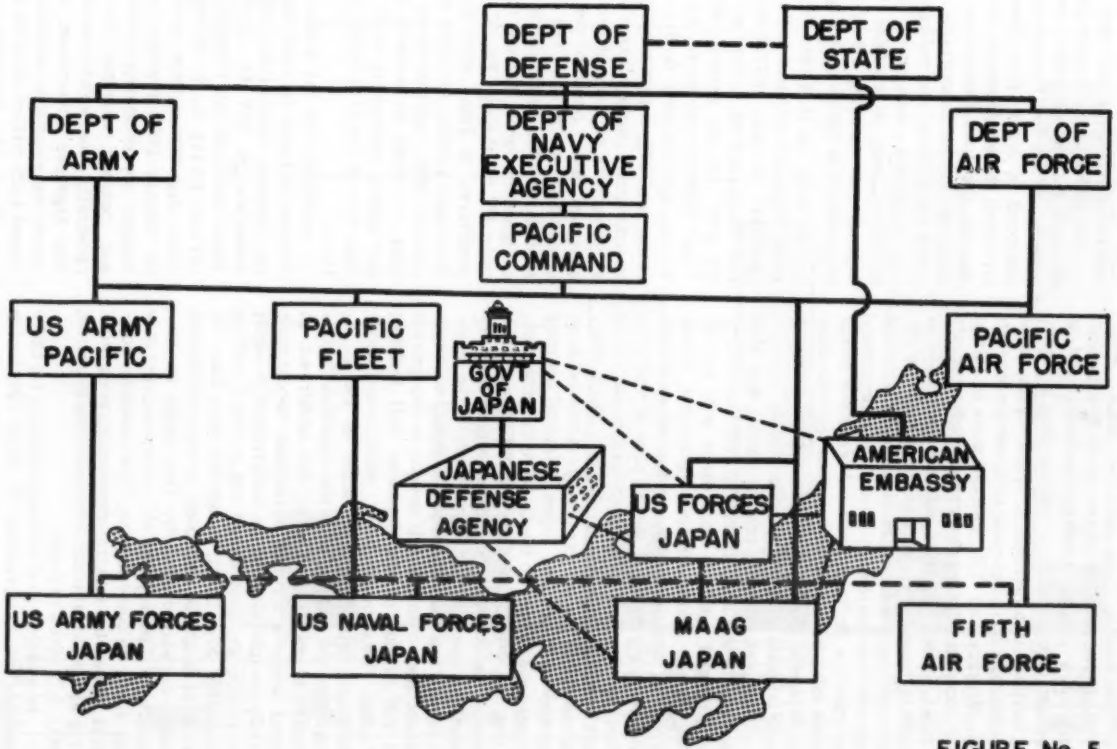


FIGURE No. 5

MANAGEMENT ANALYSIS IN THE POLITICO-MILITARY AREA

The impact of political considerations upon military decisions is well known. There is an understandable desire on the part of many military planners to "run their own show" without regard to political implications. Frequently, there is a similar tendency upon the part of political experts to plan without proper regard for military implications. It is sufficient to state that there is an inseparable relationship between U.S. military and U.S. political aims in Japan. For example, Headquarters United States Forces, Japan is required to conduct direct negotiations with representatives of the Japanese Government concerning military matters having political implications in Japan. The extensions of the runways at Tachikawa and other Air Force bases have been delayed for three years because the Japanese Government has not over-ridden these internal political considerations.

Political-military considerations are also involved in the annual negotiations concerning "contributed yen". In accordance with Article XXV of the Administrative Agreement, Japan agreed to contribute the yen equivalent of $155 million per year "for the purpose of procurement by the U.S. of transportation and other services and supplies in Japan". Each year, the matter is the subject of negotiations between the United States and Japan. Several courses of action are open to the U. S. representatives. First, we might insist on the full amount each year. This might be considered a pure military position, since the U. S. military is the beneficiary of the contributed yen. Second, we might accept less than the full amount in recognition of the buildup of the Japanese Self Defense Forces. This might be a "politico-military" viewpoint, since political aims of the U. S. envisage the increase of the Japanese forces capability as U. S. Forces are withdrawn. In April 1956, a formula agreement recognizing this principle allowed the Government of Japan to reduce the contributed yen to $82.2 million (for JFY 57). Third, an amount less than the formula might be accepted, or the contribution might be waived entirely. This might be considered a "pure political" viewpoint, and it is not likely to come to pass. This example, however, shows the interrelationship between military and political considerations in the operation of U. S. Forces in Japan.

In addition to direct negotiations, Hq USFJ advises the Government of Japan concerning many military actions which have political implications. For example, through the Japan-American Committee on Security, we inform the Government of Japan concerning the size of U. S. Forces withdrawals. Japanese papers have stated that the U. S. Forces in Japan will decline from 100,000 (July 56) to 50,000 (Jul 58). As of 30 Nov 57, U. S. Forces strength in Japan was 77,000, a reduction of 23%. (Projected strengths are classified).

Another example of programs which require projections by the three services in order to inform the Government of Japan is the release of Japanese National employees. Local newspapers claim that unemployment will double in Japan, when Japanese Nationals now working for U. S. Security Forces are released.

Hq USFJ takes responsibility for notifying the Government of Japan about the financial impact on the local economy of U. S. troops stationed in Japan. Five financial reports are furnished to the Japanese Ministry of Finance through the Joint Committee. This is another example of the inseparable relationship between the political and military in Japan.

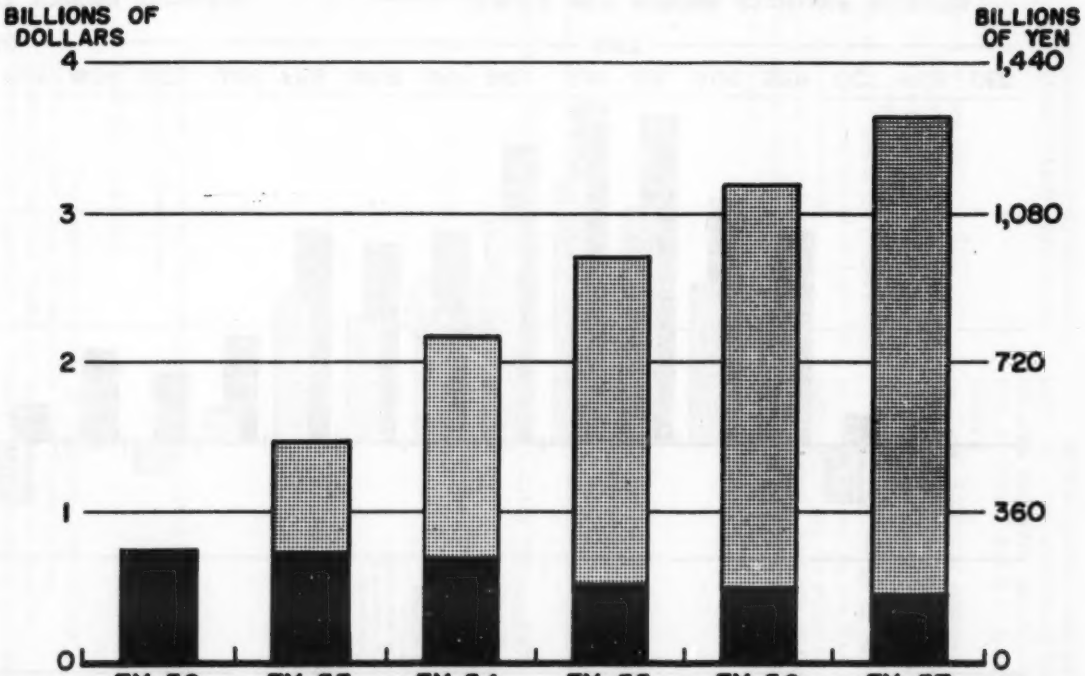
In order to understand this situation, it is necessary only to examine the U. S. defense expenditures entering the international balance of payments in Japan. (See Figure 6).

In 1952, the U. S. was "filling the gap" between Japanese imports and exports with an expenditure in Japan of $748 million. This amount has decreased each year to $446.4 million in FY 1957. Of this amount, 55% represented official contract payments, while 21% was used by non-appropriated fund activities (such as clubs) and 24% represented personal yen sales to individuals (for purchases of supplies and services such as payment of rent). On a per person assigned basis, personal yen purchases represented $81 per month. The full amount represented $337 per month per military and civilian assigned in Japan. During the six-year period from FY 52 through FY 57, U. S. defense expenditures in Japan were $3.6 billion. During this same period, Japanese national income increased 50% - approximately 12% a year. However, it should be borne in mind that Japanese per capita income is still considerably less than that of the U.S. ($230 in 1956 vs $2,000 in U.S.).

Nowhere can the financial impact of U.S. Forces in Japan be seen more clearly than in the Japanese International Balance of Payments statistics. In JFY 55 (April 55 - March 56) Japan increased her Foreign Exchange holdings (principally U. S. dollars and sterling) by more than 500 million dollars. But, beginning in January 1957, monthly losses within seven months approximately wiped out these gains and reduced reserves to the danger point (generally considered to be one billion dollars). The Japanese Government, in an effort to improve the situation, reduced imports and borrowed $125 million from the International Monetary Fund. The following chart shows the net foreign exchange reserves at the end of each month. (See Figure 7).

Only six months of this seventeen month period show favorable balances. The tremendous importance of yen purchases by the security forces is obvious when we consider the net balance had there been no security forces expenditures. Without these expenditures which represents between 15 and 20% of the total

US DEFENSE EXPENDITURES ENTERING THE INTERNATIONAL BALANCE OF PAYMENTS IN JAPAN



	FY 52	FY 53	FY 54	FY 55	FY 56	FY 57
CUMULATIVE		$ 1,472.9	2,168.2	2,692.8	3,196.7	3,643.1
ACTUAL	$ 748.0	724.9	695.3	524.6	503.9	446.4

FIGURE No. 6

JAPAN'S NET FOREIGN EXCHANGE RECEIPTS

IMPACT OF USFJ YEN PURCHASES

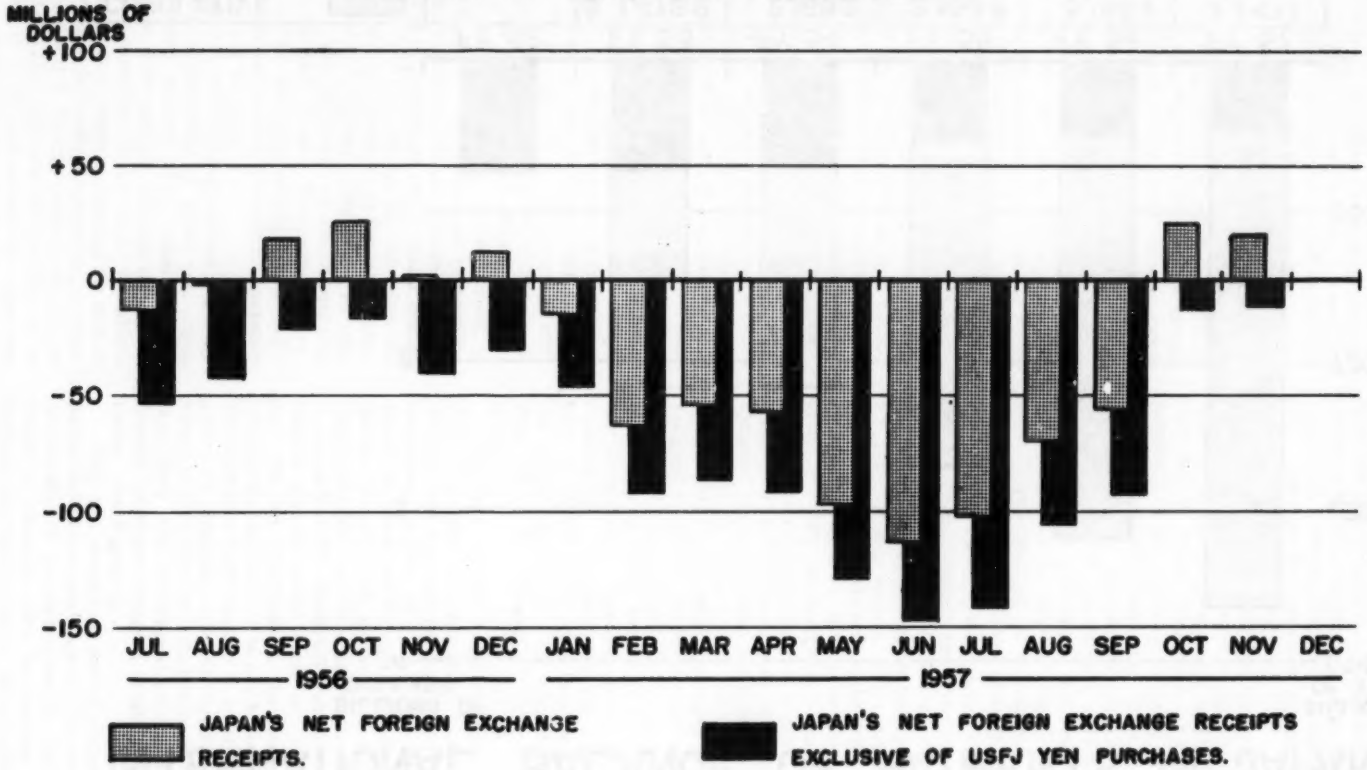


FIGURE No. 7

receipts, the Japanese balance of payments would diminish by approximately $450 million a year

CONCLUSION

In Summary, we see that:

(1) A major effect of the assignment of U. S. Forces in Japan has been the financial rehabilitation of the Japanese economy. We have furthered the political aim of the United States to provide for the economic growth of Japan and to bolster her against Communism.

(2) Both political and military views must be coordinated before effective military action in Japan can be planned.

(3) Management Analysis functions in HQ USFJ, in a politico-military atmosphere, along the same basic principles followed by other military commands and by U. S. commerce and industry.

(4) Additional emphasis is needed, however, in long range programming by each service (principally at Washington level), and in program definition in Japan.

(5) The degree of success in attaining U. S. objectives in the Far East depends to some extent on the effectiveness of management analysis functions of the entire staff of Hq United States Forces, Japan.

AMERICAN SOCIETY OF MILITARY COMPTROLLERS

NATIONAL COUNCIL

KENNETH E. DUNLAP
NATIONAL EDITOR
ARMED FORCES COMPTROLLER
816 NORTH OXFORD STREET
ARLINGTON 5, VIRGINIA

9 June 1959

An open letter to the President of the United States, Dwight D. Eisenhower.

Dear Mr. President:

The American Society of Military Comptrollers share in your loss of Honorable John Foster Dulles, former Secretary of State and Honorable Donald Quarles, former Deputy Secretary of Defense, both champions in their respective fields.

Sincerely,

Kenneth E. Dunlap

Kenneth E. Dunlap

DEPARTMENT OF DEFENSE PROGRAM FOR IMPROVEMENT IN FINANCIAL MANAGEMENT FOR OPERATION AND MAINTENANCE

Mr. H. W. Bordner — Deputy Comptroller for Accounting Finance and Audit Policy, Office of The Assistant Secretary of Defense

The Department of Defense is now engaged in formulating and directing the execution of a program for further improvement in its financial systems.

Many improvements have been made in recent years under Title IV of the National Security Act, but much remains to be done. Public Law 863 also established requirements for certain selected improvements, as you doubtless know.

The first step being taken in further system improvement is the development and coordination of acceptable principles and policies to meet the required objectives. This has been almost accomplished for the area of operation and-maintenance programs. A directive is about to be issued for this area.

This directive would require establishment of a time-phased schedule by each military department, subject to the approval of the Assistant Secretary of Defense (Comptroller), covering the steps to be taken in systems improvement. Among the results should be a high degree of systems uniformity for all the services.

You would be interested, it is likely, in a discussion of Defense objectives and major problems which have been encountered.

Basic Objectives

From a technical standpoint, it is the objective to have one integrated financial system to meet the needs of management within the Department of Defense at every level from the Secretary of Defense down to the installation commander for the purpose of:

Planning and programming.

Budget preparation, review, and analysis, in connection with appropriations, apportionments, and internal funding within the military departments.

Program execution.

Review and analysis of performance, especially through reporting.

This system should also meet the needs of the Bureau of the Budget, the Congress, the General Accounting Office, and the Treasury Department.

It is recognized that the system must be modified appropriately for each separate major program area. (For example, the system for procurement and production would differ from the system for operation and maintenance).

More basically, however, it is the objective to establish a system of financial management which will provide incentives to management at every level to achieve the greatest degree of military effectiveness with the resources available. It is believed that financial management arrangements can and should be devised in such a way that, as a result, human nature will work for this objective rather than against it.

Financial Arrangement at Installation Level

It is believed that human nature in the military departments would be given the greatest opportunity to utilize resources most effectively from the military standpoint, if there were a maximum degree of decentralization of financial authority in the area of operation-and-maintenance programs. More specifically, it is believed that the following financial arrangements would be desirable:

a) Use an operating budget for each installation, or other operating unit, as a basis for obtaining authority to finance operations, with emphasis on costs to be incurred. The operating budget should be revised as necessary during the fiscal years.

b) This operating budget, after analysis and review, should be approved by the immediate operating agency concerned, and it should give the operating unit financial authority to incur costs and obligations, with only one overall absolute limitation — the total amount of the current budget. The operating unit should have the privilege of exceeding the budget estimate for any individual item, provided there are decreases for other items so that the total amount of the budget is not exceeded. Explanations of major budget deviations should be required as a basis for high-level review and appropriate action, wherever it might be considered the deviations were not justified.

c) The device to be used to establish the overall financial authority and limitation, based upon the operating budget, would be the allotment from the appropriated fund for operation and maintenance. In other words, any operating unit should have only one allotment and obligation limitation based upon the total amount of the current operating budget. Under this concept every item of operating cost or expense would be required to be paid for and charged to the allotment, or budget limitation.

d) Within the installation there should be a part of the operating budget, with parallel accounting for costs, for each officer responsible for a segment of operations. In the case of any function, where obligations vary significantly from cost,

such as local procurement, there should be similar responsibility control for the placement of contracts and orders.

We believe that this system would have very important advantages as follows:

1) The local commander would have the resources essential for the performance of his mission. He would not have to depend upon others, remote from the point of need, to have resources to meet his needs, as well as the needs of all other claimants.

2) The local commander and staff would have flexibility in the use of resources. In making expenditures or incurring costs, they could choose between alternatives available on the ground, in consideration of special circumstances, without specific high level approval, other than the advance broader approval of the items in the operating budget.

3) Under this system the local commander and staff would have a maximum incentive to consider costs in budgeting and program performance, especially in making day-to-day decisions. They would have to weigh alternatives and exercise restraint. This would be because there is just so much available to spend, and no more — the amount of funds equal to the total budget limitation. And most of all, there would be the incentive to achieve maximum results from the military standpoint, inasmuch as that is the principal motivation, and the commander is accountable for results — militarily, as well as financially.

4) This system would be consistent with financial management needs at higher levels within the Department of Defense, as well as the Bureau of the Budget and the Congress.

It is recognized that to achieve this ultimate goal it may take time. We must learn to walk before we run, and this means that in the beginning some safeguards would be retained.

PROBLEMS

Full-funding

From the outset there has been a problem with respect to what we may term "full-funding" of all costs so that we may have only one budget limitation through the allotment for each operating unit. In the main, this involves: (a) costs of consumable materiel centrally procured and distributed; and (b) military personnel costs for administrative and support-type activities presently financed under a separate appropriation for each military department.

Consumable Materiel

Although there has been some controversy, the principle has been established that centrally-procured consumable materiel should be financed, managed, and distributed by inventory managers through the use of revolving funds which we call "stock funds." By "consumable materiel," is meant items which are considered expended upon withdrawal from stock. Such materiel includes spare parts, but not major components, such as aircraft engines, electronic "black-boxes," and ship-propeller shafts. These major components of equipment are properly financed under the procurement appropriation.

Installations would be charged and pay the stock fund for consumable materiel upon withdrawal from the fund. On the other hand, they should not budget nor be charged for the cost of capital-type materiel, including major components; such materiel is distributed and used under physical item control.

The advantages of the use of stock funds include facilitating inventory management of centrally-procured consumable materiel by the central inventory managers in the logistics agencies, as well as the full-funding advantages to operating activities, as consumers, just discussed. But supply management is another subject.

The Army and Navy have both made considerable progress in extension of the use of stock funds to consumable materiel of a technical type. It has been established, and so provided by Department of Defense directive, that the question of potential obsolescence losses of technical materiel has no bearing upon the question of financing such materiel under stock funds. This fact is not understood by many.

In the Army, however, there has been only a test of the extension of stock funds to the installation level for technical materiel. Certain difficulties have been encountered because of the necessity of field installations being required to separately finance and account to seven different technical services for the categories of materiel under their respective divisions of the stock fund. As an alternative, the use of a consolidated stock fund division for each major military command is being considered.

Nevertheless, in the case of the Army, the fact that depot stocks of technical consumable materiel are financed in the main under stock-fund divisions of the technical services, means that the installations must pay from their respective allotments for their transfers of such materiel from depots, as well as their local purchases. Hence, the Army station purchases of all consumable materiel are funded and covered by their total operating budget. In addition, there is local station budgeting and accounting, within the overall

budget, for the cost of such materiel consumed. This complicates the problem of local budgetary administration, but otherwise it is not inconsistent with the principle of funding all costs of operation and maintenance.

During an interim period preceding extension of stock funds to all technical materiel of a consumable nature, at least at the depot level, there is the necessity in the case of the Air Force (and to a lesser degree, the Navy) to budget and account for unfunded costs of consumable materiel not financed under stock funds, in addition to the funded costs of consumption and/or acquisition of stock-fund financed materiel and locally procured materiel.

Military Personnel Costs

It is an ultimate goal to finance military personnel costs of administrative and support type activities under station allotments, in a manner similar to civilian personnel. This is a long-term objective which is not included in the present program for improvements in financial management, because this practice would not be feasible until there is a change in the basis of making appropriations for military personnel costs. In the meantime, provision must be made for budgeting and accounting for these costs as unfunded costs, as a part of total costs of all operating activities. It is, of course, not contemplated that military personnel costs of combat forces should be budgeted or accounted for by operating activities -- not even as unfunded costs; these military personnel are controlled on a department-wide basis by tables of organization and equipment.

Under the ultimate plan of funding all costs, military personnel costs would be charged to administrative and support-type activities upon the basis of reimbursing the military personnel appropriations. As a desirable alternative, military personnel costs might be financed under the operation-and-maintenance appropriations, in which case there would be a separate program for such costs with distribution of costs to administrative and support-type activities. Either procedure would permit the desirable continuance of the present uniform practice of initially paying for these costs on an open-allotment basis.

Separate Controls Over Unfunded Costs

The continuing existence of unfunded costs will necessarily complicate budgeting and accounting and reduce financial flexibility of the military commands and installation commanders, as compared with the desirable ultimate objective. This will be the result, because during the interim there will be a limitation placed on total costs to be incurred by each operating unit as well as upon its obligations and funded costs. The total cost limitation will be made parallel to fund limitations, commencing with apportionments of funds.

As you can see, a separate limitation on total costs is equivalent to a separate limitation on unfunded costs. This would be the same as dual allotment limitations -- one for the total funded costs and obligations, and the other for the total unfunded costs. All cost decisions would have to be made in consideration of the impact separately on these two kinds of cost limitations, and this means less financial flexibility. Necessarily, this would also result in operating budgets and reports, and supporting accounts, at all levels, being split in detail between funded costs and unfunded costs. Of course, it is the objective to eliminate this complexity and financial inflexibility in accordance with the establishment of complete cost-based budgets pursuant to Public Law 863.

Establishing Only One Allotment For An Operation Unit

Under the improvement program there would be only one allotment to each operating unit. However, there would also be an interim requirement for maintaining additional obligation limitations under the allotment to each operating unit, based upon the separate budget programs which they may administer. There are approximately eight budget-program accounts under the operation-and-maintenance appropriation. It is believed that any operating unit would have no more than three or four of these budget programs. The ultimate elimination of these additional obligation limitations would depend upon the performance demonstrated in the financial system, especially in consideration of the following:

1) Preparation and submission of good budgets at all levels based upon cost, including timely budget revisions and reprogramming action.

2) Providing evidence of internal departmental discipline at all levels in adhering, within reasonable limits, to estimates, in terms of budget accounts, shown by the latest approved operating budgets.

In the interim, under each operation-and-maintenance appropriation, separate obligation limitations would continue to be established, in connection with apportionment action, for the several budget-program accounts at the departmental level, and this would necessarily require observance of such limitations through fund allocations and allotments within each military department.

The reduction of the number of obligation limitations, upon this basis, has almost been achieved during the past few years -- a very great reduction from the number that once existed. Further progress, of course, is a matter of learning to walk before we run.

At this point, I would like to give you the defintion of "operating unit" which has been agreed upon:

Operating Unit. Each major organizational subdivision or entity made responsible for execution of an identifiable segment of a program. It would include all identifiable activities under one command or management, whether in the field or at any higher level, such as an intermediate operating agency, an operating agency, or even a departmental headquarters.

Thus, all activities at any installation under one commander would be included within the definition of a single operating unit. However, wherever there are any tenant activities or separate activities which are under separate commanders, each commander would have a separate operating unit. Budgeting and accounting would necessarily follow these placements of responsibility.

Reimbursements

There is general agreement that all orders for deliveries of materiel or for performance of work or services to other operating units should be on a reimbursable basis and not upon the basis of lateral suballotments or citations of funds. This would facilitate cross-servicing as well as be helpful in meeting the objectives of performance budgeting and full funding most simply.

Reimbursements should be made directly available to the performing units to the extent they finance the costs, through automatic increase to their allotments, at the time the orders are received, as a means of financing the costs. It would make no difference that both ordering and performance unit are financed by the same appropriation.

Procedures are now being established along this line with the approval of the Bureau of the Budget.

Integrated Account Structure

There is general acceptance of the principle that there should be one account structure for classifying costs of operation and maintenance programs for the joint purposes of programming, planning, budgeting, and accounting (including reporting). The major problem concerns the depth to which there should be uniformity for all three military departments, considering the differences in their missions and organization.

This problem has been approached by getting agreement on the following principles and criteria for account classifications.

1) Summary accounts used in budgets and reports submitted to higher levels should be distinguished from supporting cost accounts used at operating levels. These summary accounts are called hereinafter, "budget accounts"; the supporting accounts, "cost accounts."

2) Budget accounts are comprised of "budget-program accounts" and "budget-activity accounts." Budget accounts will be prescribed by the Assistant Secretary of Defense (Comptroller) in accordance with the criteria hereinafter provided.

3) Uniform budget-program accounts should be established for the three military departments. These accounts should represent logical groupings of "budget-activity accounts" based upon their organizational structures and primary functions; so far as feasible such groupings should be comparable for the three military departments.

4) Budget-activity accounts should be devised for each military department individually in consideration of each of the following:

a) Identification of primary functions and natural programing categories.

b) Identification of responsible organization units at operating level.

c) Establishing, so far as feasible, uniformity and comparability between these accounts for the three military departments.

5) Cost accounts should be devised within each military department individually in consideration of the following:

a) The cost accounts should be designed primarily to meet the needs of local management. They should be based upon identification of functions and organization units responsible for performance at the operating level.

b) At the same time, provision must be made for such cost accounts as may be required for grouping, or for distribution by appropriate cost accounting methods, into accounts prescribed for use in recurring budgets and reports to higher levels. Such higher level requirements include data required for the President's Budget, budgets and reports in terms of budget-activity accounts, uniform cost reports for comparable types of activities, and uniform cost data needed department-wide by headquarters and staff elements of the Office of Secretary of Defense.

For the purpose of establishing budget-activity accounts (paragraph 4), the following definitions have been given:

Function, Primary A clearly defined type of operations assigned to an operating unit from the standpoint of its principal assigned objectives, as distinguished from its component functions. For example, depot supply operations; depot maintenance of materiel.

Function, Component. A clearly defined type of operations assigned to an operating unit in order to carry out a primary function. For example, materiel receiving and issue functions of depot supply operations. Also, installation-support functions are component functions with respect to depot supply operations.

Installation-Support Costs

There has been a considerable amount of discussion and consideration of the subject of distribution of installation-support costs by each operating unit. And the past practices of the three services have been different. The present status of the matter is substantially as follows:

1) Installation-support costs would not be the subject of separate budget-activity accounts from the standpoint of Department-of-Defense-wide budgets and reports. Budget-activity accounts would be in terms of primary functions, as explained above. Cost accounts for installation support would be supporting accounts.

2) There would be no requirement to distribute installation-support costs of a host operating unit to minor tenants nor to any tenants in the area of combat forces. However, it would be expected that major tenant operating units of a logistic nature should receive charges for installation-support costs.

3) In a similar manner, installation-support costs would be distributed between activities within one operating unit only in the case of activities other than combat forces.

4) Installation-support costs distributed may be confined to direct out-of-pocket costs applicable to the respective tenant operating units, or the separately identifiable activities within one operating unit. The remaining installation-support costs may be assumed directly by the host or major operating unit which is responsible for the performance of the installation support.

5) In establishing these requirements, it would be understood that cost distribution might be required solely to meet the needs of the Office of Secretary of Defense from the standpoint of uniformity in budget accounts prescribed for use in budgets and reports for the three military departments. There is nothing in the present plan which would necessitate changing management responsibilities locally for installation-support costs. However, it is hoped that there will be more general adoption throughout the Department of Defense of what is believed to be the desirable management practice of distributing direct installation-support costs, with the requirement that the benefitting activities share in the control of these costs, because they are responsible for generating demands for support. At the same time, there should be continued cost control over installation-support costs by the single activities responsible for performance at a host operating unit or at a single geographic location.

Integrated Budgeting and Accounting

As we have seen, budgeting and accounting for total cost by each operating unit must necessarily be broken down between funded and unfunded costs, for management purposes. Funded costs for each operating unit should be reconciled in cost reports and budgets with each obligation limitation (budget-program account) as well as to the total allotment limitation on obligations.

The first part of each such reconciliation may be expressed simply as:

Funded expenses
+ Capital expenditures locally financed
+ Increase or (–) decrease in inventory of consumable materiel locally financed
Equals total accrued expenditures.

The cost accounts should include all the accounts required for the reconciliation to accrued expenditures. The data required should be produced by the normal direct account summarization of financial transactions. There should be no required derivation of data for the reconciliation by reference to the property accounts.

The remainder of the reconciliation for each obligation limitation should be broken down in four parts — one for each open allotment of a one-year appropriated fund and the M account in terms of:

Accrued expenditures chargeable to each allotment
+ Increase or (–) decrease in contracts and orders outstanding thereunder
Equals obligations incurred under the current year's allotment (or obligation adjustments in the case of prior years' fund subdivisions)

The data for the reconciliations of accrued expenditures to obligations incurred (or obligation adjustments) should be produced directly from the accounts for unobligated balances under each fund allotment.

It should be realized that, by the will of Congress, each appropriated fund is an independent financial entity to be accounted for separately from all other appropriated funds or revolving funds. It follows that each allocation or allotment from a separate appropriated fund should be accounted for separately as an independent financial entity. And this is

not burdensome if the principle is followed of having only one allotment to each operating unit from each appropriated fund under which it is financed.

This means where double-entry bookkeeping is maintained, all accounts for fund resources and unpaid obligations, including accounts receivable and payable on the accrual basis, as well as the undisbursed Treasury balance, should be maintained in a separate group, with the unobligated balance accounts, for each allotment of funds. The accrued expenditure accounts would serve as control accounts over total funded costs recorded in detail in the subsidiary cost ledger. In no other way can it be assured that all these accounts will be kept in the required balance. This means that the property accounts, including inventories (accounts which are not fund resources), should be maintained in a group separately from the fund accounts. In the case of the property accounts, the balancing equity accounts are the Government's investment in property.

This is also the simplest practice. Accounts would be arranged in such a way as to directly support the financial reports. In fact, the reports could be prepared directly from the accounts without the use of trial balances.

Where there has been failure to follow this fundamental principle of Governmental accounting, there has been confusion, delay, inaccuracy and excessive bookkeeping effort required to produce financial reports, including Section 1311 reports and reconciliations of costs, accrued expenditures, and obligations.

General ledgers, when maintained, should have the accounts maintained in these separately balanced fund groups and property groups. Two layers of general ledgers should not be introduced – (1) an additional general ledger for all funds and property combined and, (2) the required ledgers for separate fund subdivisions and property accounts. The combined general ledger would be superfluous as well as expensive to maintain.

However, double-entry bookkeeping is not necessary for all stations. Many have rather simple conditions, and it is possible to produce the same data for report purposes more simply by the use of a sort of work-sheet record based upon obligation and expenditure transactions with adjustments for accruals at the beginning and end of each fiscal period.

I hope that this discussion will be helpful to you in keeping up to date on what is going on in Washington in the field of military comptrollership from a technical standpoint.

Naturally, however, we must depend upon you people in the field for cooperation in the actual installation of systems improvements and making them work. I would like to assure you that we attempt to have your problems in mind, as well as our own, when we establish requirements for systems improvements. We would welcome views and ideas from everybody concerned. And perhaps your Association can make a real contribution in helping us all in the financial management area to work together towards our common goals.

This paper was presented to the Hampton Roads Chapter of The American Society of Military Comptrollers on November 25, 1958.

* *

REMINDER

Start planning for the Third National Convention – to be held in Washington, D. C., in October 1959. Specific dates to be announced later.

* *

SPECIAL INTEREST –

The appearance of Major General H. N. Loftoy, on the very popular T. V. program "This Is Your Life" by Mr. Ralph Edwards, was viewed by his many friends on 13 May 1959. Major General Loftoy, Commanding General of Aberdeen Proving Ground, Aberdeen, Maryland, was among those present at the 19 February 1959 meeting of the Chesapeake Chapter of the American Society of Military Comptrollers and he presented our President, Lt. General Wm. S. Lawton, the guest speaker of the evening. Congratulations General Loftoy and to you, Ralph Edwards, goes one more deserved bouquet.

AUDITING THE AUDITORS

Mr. Foster E. Hall — U. S. Army Audit Agency

When the subject of auditing is under discussion in any mixed group of auditor and non-auditor personnel, someone is sure to comment that they are all audited to the end of their patience, but "Who audits the auditors." The answer to that in the U. S. Army Audit Agency is: the small but highly qualified staff of the Office of Review and Evaluation. Together we perform what might very well be termed an internal audit of an audit agency.

Approximately 1-1/2 years ago the U. S. Army Audit Agency was reorganized with the principal objective of merging the Contract Audit Division and the Internal Audit Division into a single Office of Audit Operations. In order to permit the staff of that office to concentrate on operations, the responsibility for Policies and Plans was placed in a separate office. Then to assure top management that the policies adopted and the plans made were uniformly applied and implemented throughout our world-wide organization, an Office of Review and Evaluation was established. This office has the responsibility for applying internal control and review techniques, that will assure top management that established policies are applied in all field offices, and that audit performance meets required professional standards. We are responsible for directing programs for the review and evaluation of the adequacy and effectiveness of audit plans, policies, programs and procedures, and for identifying problem areas and for recommending remedial action. We report to the Chief and Deputy Chief of the Agency on the general efficiency and effectiveness of operations. We appraise command's acceptance of audit recommendations, evaluate the quality of audit performance, and make investigations of reported or suspected irregularities.

I feel sure that the executive head of every large organization must have felt frustrated at times and unsure of the reliability of operating information after it has come to him filtered through many succeeding layers of management. A young man, whom I know quite well, has a position as Administrative Assistant to a highly placed executive. Recently after a hard day the executive told this assistant that his whole office organization and staff needed reorganizing and the Administrative Assistant was to plan it. The assistant felt that the staff and organization were satisfactory so he asked the boss what, in his opinion, was wrong with them. His reply was "I don't know, that's your department, but there must be something wrong with it because I'm so tired every night when I get home." Well - that struck me as sort of getting the cart before the horse, but the thought kept coming back to me - and it came back to me forcefully the other day when I was reading an article (President's Scratch Pad, Sept. 1956 issue of Management News) by the President of the American Management Association in which he said:

> "A useful measurement of our own effectiveness as executives is the extent to which we can relax in the realization that our work is being well handled by others."

He then cites the practice of airplane and steamship captains calmly roaming about the ship, chatting with the passengers, creating the impression that there is no reason for concern. He says the Captain can behave in this way because he is confident that the operating activities on the ship are being handled by well trained, competent people. That leaves the Captain free to roam about as he wishes, when and where he wishes, to see that everything is in order. If the Captain sticks at the wheel, he cannot be anywhere else. Having a good pilot on the job, however, permits him to go from engine room to bridge at will. Now this seems like good management but the Chief Executive of a large orgainzation with offices all over the world cannot make these inspections "from bridge to engine room" without help - he needs an internal audit staff to be his legs and eyes and ears. Or if he happens to be the chief executive of a world-wide audit organization, he needs something like our Office of Review and Evaluation.

Now assuming that the responsible head of an audit organization would like to have the means of acquiring direct knowledge of problem areas in his organization and would like a means of assuring that established organizational controls are working, How does he do it. In presenting the methods that we are using, I do not maintain that they are the only (or even the best) techniques, but we have found them successful and they are not patented.

To acquire the desired information we use three broad approaches:

1. Survey of field Offices.
2. Post review of audit reports.
3. Indications from outside sources.

First:

The survey is the obvious and direct approach. If you want to know how well a field office is doing - you go out and see. The kind of survey which is effective must be made by competent personnel, who will dig in and uncover the facts about the operation, who will see things as they are, not as they ought to be. A good survey man should be among other things, a sort of efficiency expert. Survey men should not be restricted in their field of inquiry.

They should not only be interested in how well audits are performed - but how well they are scheduled, planned, supervised and supported administratively. A good survey man must have a lot of curiosity. The survey man cannot leave any question partially answered. He must follow through. It is not enough to determine that an audit was not up to standard. We want to know why! Was the auditor misassigned? Does he need more training? Was the supervisor on the job? If so, what's wrong with him? If he was not on the job, why not? Perhaps poor scheduling of supervisor's time? Perhaps the office is short on supervisors? If so, why has not someone been promoted? If no suitable candidate is available, why was not a supervisor requisitioned? If requisitioned why has the personnel office not acted to fill the job? Perhaps the need is for clearer or more comprehensive audit directives or instructions? Etc., etc., etc. Wherever the trails leads, the survey specialist should follow it until he finds the weak spot and is in full possession of all the facts. He is then in position to recommend the needed corrective action and he should do so without reservation regardless of the level to which it must be directed.

We require our regional offices to survey the audit offices under their supervision on a scheduled annual cycle. The regional offices are surveyed by Headquarters teams on an 18 month cycle. Since our objective is to improve future operations, we concentrate our attention on current operations. We do not attempt to cover the entire period since the last previous survey.

Most surveys are made by a single well qualified individual. Occasionally surveys are made by a team including representatives of our Comptroller and Staff Manager.

A survey - like an audit - should be well planned in advance. A written program, tailor-made to fit the need of each organizational element under survey, should be designed to provide an effective working schedule. Previous survey reports, records of post-review of audit reports, reports from outside sources, correspondence and other available information should be used in the preparation of the survey program. Survey programs should include all areas of weakness disclosed by the last previous survey, or by other sources, and sufficient tests made to determine whether effective corrective action has been taken. While sensitive areas should be fully explored, other areas may require less attention and should be tested on a selective basis to provide reasonable coverage of all programmed areas of interest.

The survey should be executed in a planned sequence of activities to be covered. It is usually started by interviewing the person in charge of the office being reviewed. The interview should include a comprehensive discussion designed to disclose the incumbent's knowledge of his duties and responsibilities. Selective interviews and questioning should be extended to all levels of the staff. The questions posed should fit the level of responsibility of the preson interviewed. Each interview will be followed up by appropriate selective tests of operations to establish the actual facts and conditions. If weaknesses are found at any level, the cause and effect should be determined. Findings and tentative recommendations should be discussed with all persons having knowledge of the facts. We then favor putting the matter in writing and asking for the reaction of the responsible local official, also in writing. If of sufficient importance, immediate implementation of corrective action may be directed.

The survey team should prepare work papers in sufficient detail to record clearly the extent of the review, and the findings and conclusions reached. Emphasis should be given to factual support of statements, conclusions, and recommendations to be made in the survey report.

Upon completion of a survey, a conference should be held to discuss the survey findings, conclusions and recommendations with the head of the office under survey and such members of his staff as he may desire to have present. This "exit" conference serves to inform the staff of the office under survey of adverse conditions and of suggestions for effecting improvements. It also serves to disclose any additional information or opinions that the staff may have on the survey findings. There may be differences of opinion as to cause, effect and the best course of action to correct a practice or condition, but when the facts are questioned the survey director should verify the information and reach agreement with all parties concerned as to the accuracy of the facts. Unresolved differences of opinion should be noted in the work papers and fully explained in the survey report.

Survey findings and recommendations should be addressed to the head of the lowest organizational element having responsibility and authority to take corrective action. The report should then be given wide distribution among executive personnel at higher echelons who have or should have, an interest in the subject. A definite plan for implementation of survey recommendations and scheduled follow-up is, of course, necessary if the full benefits are to be obtained by the organization.

Post Review of Audit Reports

A long established and accepted technique of quality control is the selective inspection of the end product. The end product of an audit agency is the audit report. The audit report is very important to many of us because our continued employment may depend on the utility, effectiveness, integrity and degree of acceptance of our audit reports. The audit

report is the auditor's means of communication with management. To test the quality of our end-product a small but representative cross section of the audit reports issued by each field office within each quarter of the fiscal year is reviewed. This post issuance review is in addition to (and not a substitute for) the usual supervisory review of the auditor's draft report prior to publication. Our minimum sample is approximately 10% - which may be increased wherever the need is indicated. The review is extended to the work papers whenever appropriate as indicated by the review of the report.

You may ask what we are looking for in this "Review of the Reviewers?" In general we evaluate the reports for quality of facts and findings, style, clarity, timeliness, form of presentation and scope. Time does not permit a complete coverage of the specific items which the reviewer looks for but the following are cited as examples:

Reports are checked to see:

(a) If the report clearly and accurately stated the purpose of and the authority for the audit; the period audited and the scope of audit.

(b) Were areas not covered by the audit identified in the report?

(c) Were findings objective, factual and conclusive? Were they clearly stated and presented in sufficient detail to support the conclusions reached?

(d) Were the recommendations definitive and did they follow logically from the facts disclosed?

(e) Was the report issued on a timely basis to provide the maximum of usefulness?

(f) In the case of internal audit reports, were recommendations directed to the headquarters, office or agency having responsibility for the matters disclosed and having authority to take corrective action?

(g) Did contract audit reports include basic information on the contract amount, ceiling price, special cost determination provisions, price redetermination articles, etc?

(h) Did the report contain recommendations on forecasted or projected costs?

(i) Did the report include the auditor's reason for selecting the base used by the auditor in the apportionment of overhead costs?

(j) Was the base period used for apportionment of overhead expenses of sufficient length to equalize seasonable variations? Was the effect of year end adjustments considered?

(k) Were profit factors evaluated and commented on by the auditor?

(l) Were the auditors consulted before changes were made in the draft report by supervisors?

At the start of this program we found that, generally, the reports were good. We also found some incidence of almost every conceivable thing that could be wrong with an audit report, ranging from poor punctuation to serious technical errors. Fortunately the serious deficiencies were less prevalent than the minor findings.

The really startling finding is the tremendous improvement shown in the quality of our audit reports after several months of operating this program. By analyzing specific cases and the incidence of recurring deficiencies, corrective action necessary to improve the quality of future audit reports is revealed and corrective action taken immediately. Individual auditors and local audit offices that are weak on report writing ability are pinpointed. Weakness in technical performance is also revealed. Summaries of the post-review findings by types of deficiencies are reported quarterly to Headquarters, where they are summarized and areas of significance developed for appropriate action. This action may take the form of new or more detailed audit instructions, special training courses, or areas of emphasis in seminars or branch conferences.

Indications from outside sources:

Within our Agency certain necessary operations have been assigned to the Review and Evaluation program because the performance of these duties has the advantage of funneling in information which is of assistance to us in the basic mission of evaluating and improving the Agency's effectiveness. For example evaluating and processing:

(a) Command replies.
(b) Inspector General reports.
(c) GAO Reports and Army Position Statements.
(d) FBI Reports.

Within the Army an installation commander holds a position somewhat similar to that of a plant manager in a large multi-plant industry. The processing of commander's replies to internal audit reports is a very important function. Commanders are required by regulation to reply within 60 days, stating their concurrence or nonconcurrence to each audit recommendation. In case of concurrence, the corrective action taken must be stated. In case of nonconcurrence, the reasons for the nonconcurrence must be explained. Our past experience has been that commanders accept and take corrective action on about 95% of our audit recommendations. The successful resolution of the differences of opinion involved in the nonconcurrences with the remaining 5% of our recommendations is a most sensitive operation.

By correspondence, research and personal contact all the information necessary to making the right decision must be gathered. This may affect Army wide policy or methods of operation. When our program analyst has all the information available, he must have the technical knowledge, understanding of Army problems and operations and the experience back-

ground to assemble, analyze and evaluate the facts and decide on a course of action. The course of action on a command nonconcurrence may be either to reverse the position previously taken by the Agency or to write a letter directing the Army commander to take the previously recommended action "By Order of the Secretary of the Army."

Approximately 4 out of 5 command nonconcurrences are settled in this manner. This leaves about 1% of our audit recommendations on which the final decision is that implementation is not in the best interest of the Army. This does not necessarily imply that the original recommendation was not good. For example, a perfectly good recommendation for a better system of controlling inventories may be rejected because a decision has been made to close the installation. However, this command reply operation does sometimes reveal cases of weakness in audits or reporting that require corrective action. Equally valuable information is often obtained from the processing of GAO reports and Army position statements, the preparing of Agency replies to reports of Inspectors General and the analysis and distribution of FBI reports. These are not only important functions in themselves but provide a source of outside-the-Agency point of view considered most useful to the review and evaluation program.

Congressional committee reports, letters from members of Congress, newspaper articles, letters from Army contractors, etc., often contain equally valuable information or leads which are followed up.

Personal contacts with installation commanders, procurement officials, and contractor officials are also oftentimes most revealing. Such contacts often serve to obtain better acceptance of audit reports and actions to improve the use of audit activities by management. By all of these means we are enabled to become intimately informed as to the weaknesses and strengths in our audits and audit reports - the effectiveness and acceptance of the recommendations made - the accuracy of the information on which the recommendation was based - and the ability of the auditor to use his facts and to present his ideas effectively. Such information obviously lends itself to evaluation and constructive internal agency recommendations either concerning weaknesses in individual reports or for proposals for improving agency wide operations.

This information is evaluated, summarized and reported to top Agency management for information or for specifically recommended action as appropriate. These recommendations may be directed toward new or changed policy, procedure, audit approach, audit directives or programming, training or staffing, organization or administrative procedure or control.

I would like to emphasize at this point that the review and evaluation staff must gain the respect and acceptance of the audit staff if the function is to be fully effective. A helpful, positive and objective approach is most necessary.

We operate on the theory that everyone desires to improve, to succeed - and to progress - and is receptive to suggestions toward that end.

To summarize - this operation of "auditing the auditors" is only a means to an end --

And the end is an informed and confident agency management -

Informed as to the current state of efficiency in our worldwide operations.

Confident that these operations are being constantly improved.

I do not believe that the responsible head of any sizeable audit organization should be without a source of independent post review and evaluation information -

> which will reveal weaknesses in his organization as a minor benefit.
>
> and will promote constructive recommendations and an improved operation as a major benefit.

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CORRECTION –

Your Hawaii Chapter news, in the ASMC Newsletter of April 1959, referred to the Honorable John M. Steeves as Special Assistant to Admiral Stump and author of such best sellers as "All The Ships At Sea" and "Ensign O'Toole." The Honorable John M. Steeves is Political Advisor to Admiral Felt, CINCPAC, and Captain "Bill" Lederer, Special Assistant to Admiral Stump is the author of the above-mentioned best sellers.

The editorial staff regrets the error.

MILITARY CONSTRUCTION PROGRAM MANAGEMENT

Mr. T. Dale Culbertson, Accounting and Finance Policy Division, Office of Assistant Secretary of Defense (Comptroller)

This article is in part representative of the situation which exists in current military construction program management, and in part represents some novel ideas with respect to such management. It is intended to indicate some possible approaches to the problem of more effective management of a program primarily at field levels, with a reduction in clerical effort and paper work now imposed on critical engineering and comptroller personnel. It is not a criticism of any specific practice or organization, but is proposed for thoughtful consideration.

An understanding of the basic premise of program management is essential to a fuller understanding of the ideas set forth herein. What constitutes an effective management practice with respect to the military construction program of the Department of Defense? Is it constant and continuous review of cash resources, non-cash resources such as inventories of materials and equipment already on hand, continuous review of allotment balances, or, is it close and continuous review and inspection of work accomplished and work to be accomplished? For the present, let us assume it to be the latter.

In the military construction program, existing Department of Defense policy as well as Congressional policy requires that when a construction project[1] is started, it shall be completed with resources (cash and inventories) on hand. Partial funding of such construction, such as in civil construction programs, is not permitted. This policy is sometimes referred to as the "full-funding concept." It simply means that when you start a construction project you must have on hand, sufficient funds, or other resources to finish the job.

With the concept of full-funding in operation, the primary source of program decisions is in terms of the Current Working Estimate[2] for each proposed construction project. So long as this estimate remains unchanged, resources are available (the Current Working Estimate has been fully funded). An upward change in this estimate is an automatic signal that additional resources are needed for that job. A downward change means that resources which have been made available through full-funding of the Current Working Estimate are available for use elsewhere (to the extent of the downward adjustment). This relationship between current working estimates and funding is always present.

The review of available funds on a continuous basis is a necessary part of the whole fabric of financial management, but it is a secondary element to the primary task of program accomplishment and control. The management of funds, as distinguished from the control of programs, is a direct responsibility of those who issue and those who receive allotments of funds.

In this area, it is of little benefit to program managers to know that sufficient funds are available at any given time to cover existing obligations at that same time. It is much more important to know, in fact, consistent with current Department of Defense policy, it is mandatory to know that when the first increment of a construction project is placed under contract, that there remains in the "kitty" adequate funds to cover obligations for the other parts and pieces of the project to make it a usable piece of real property.[1] If the end result of construction is half a runway, or a barracks without utilities, it is of little beneficial use. When the contract for the building of a barracks is awarded, the manager of the program must also know that he will have sufficient funds in the "till" to cover utilities and other assessory items to make the barracks a useful and usable structure (the Current Working Estimate for that project must be fully funded).

The best way to do this, is not by continuous review of unobligated balances of allotments. That merely tells how much cash resources are at your disposal for all the programs which have been assigned. It gives not the faintest clue as to how much of that balance is already committed, or reserved (by the Current Working Estimates) to complete facilities already under contract and in need of additional funds. In case of the barracks above, the balance of the alloted fund does not indicate there is an adequate balance of funds remaining for completion of the barracks (assuming the structure is under contract, but the outside utilities and access road are not under contract). It merely indicates that there is a

[1] The term "Project" as used herein relates to a separate physical entity, or a group of several identical entities which, upon completion, will be utilized to serve a single functional purpose--such as a barracks, or a set of two barracks. Generally, includes auxiliary facilities, such as utility feeder-lines and additional requisite roadways.

[2] The term "Current Working Estimates" as used herein relates to estimates for individual projects (formerly referred to as line-items) which cover all elements of cost applicable to the Military Construction Program (Authorized and Appropriated for) which are necessary to bring such projects to completion within approved standards and scope.

balance, which in itself appears more than adequate for the barracks job. This could be completely misleading, if elsewhere in the program are commitments (Current Working Estimates) which use up the entire balance. This kind of information is not available in fund accounts. It is available in approved program documents and their related cost accounts (work in place).

The simplest and most direct method of maintaining a tight control over this situation is through good programing (firm Current Working Estimates) backed up with accurate and timely cost accounting.

Let us, for example, assume that the Current Working Estimates for military construction projects (sometimes referred to as line items) are firm estimates and will change upwards or downwards only as cost indices change, or for changes in construction specifications. This provides a firm foundation from which to secure construction authorizations, appropriations and to approve programs for actual construction. Under current Department of Defense program (apportionment or funding) approval procedures, the contingency factor of Current Working Estimates which is included for authorization and appropriation purposes, is eliminated. This leaves a clean or hard estimate relating only to direct construction effort and allowable overhead charges, such as administration, supervision and inspection.

Next, let us assume that each construction District Office will receive only one allotment of funds from each available appropriation for military construction, for all approved programs in that district for any given fiscal year. This is in keeping with the full-funding concept in that the Current Working Estimates (less contingencies) for each project included in the approved program are fully covered by this single allotment. Funds and programs are equal.

Now, we have a single allotment at a District Office which is intended to provide sufficient funds to complete all approved programs for that district. If this is true, that is, the funds available are equal to the approved programs given to the district, then doesn't it make sense to put all of our program management effort on the individual approved projects? The matter of available funds has already been established when programs and allotments were made equal.

If a Current Working Estimate is adjusted upwards, that action by itself is notice to all concerned that the allotment must be increased for this upward adjustment of the Current Working Estimate, or a downward adjustment must be made in some other Current Working Estimate so that the total amount of funds required doesn't change. In this over-simplified illustration, it was not necessary to give any attention to allotments and unobligated balances. Instead, complete knowledge and control of the situation was exercised through management of the approved Current Working Estimates.

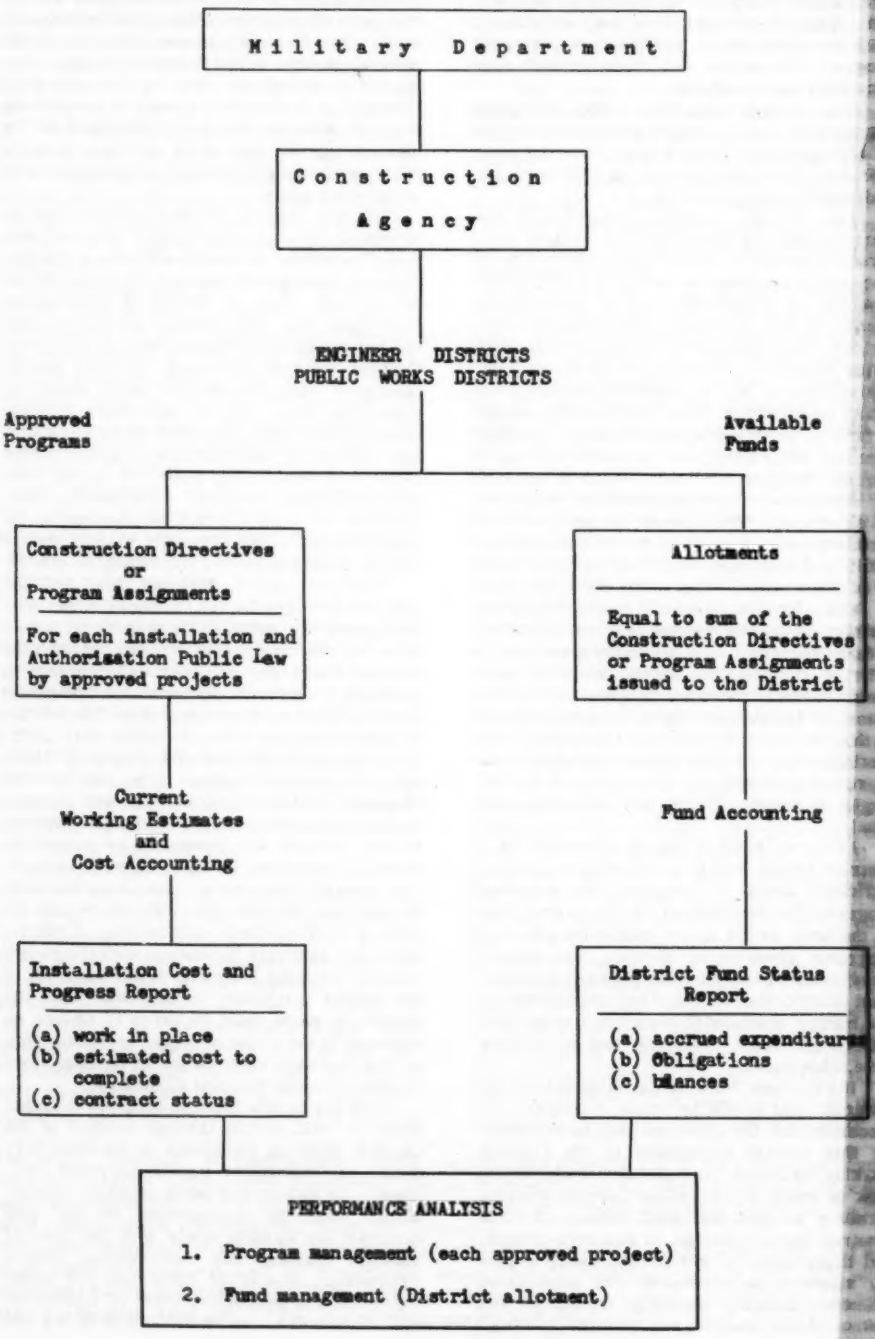
Under this concept of program management, it is conceivable that numerous adjustments of the Current Working Estimates, both upward and downward, could be made with no change in allotted funds. Changes in allotments would only be required when the sum of all upward changes in the Current Working Estimates exceeded the sum of all downward changes. It is simply a matter of maintaining equality between the single allotment to the district and the sum of its approved projects (Current Working Estimates). Illustrative chart is provided below.

If this concept of management can be accepted, then it is no longer required that program managers review allotments, obligations or unobligated balances. They may devote all of their time to review of progress on individual jobs with respect to cost to date and estimated cost to complete (the sum is the Current Working Estimate). In other words, managers may concentrate their effort on expediting those actions necessary to keep construction rolling and work with contractors and others to see that construction target dates are met. They need not spend time reviewing fund accounts. Additionally, there remains no need for fund accounting at the project level, either formally through comptroller organizations or informally by others.

This, of course, does not mean that the District Manager or the District Comptroller can ignore fund accounts. It is their responsibility to see that proper equality between the allotted funds and the approved program is maintained. Periodic review of the changes in Current Working Estimates should be routine to determine the need for additional funds. This does mean, however, that project sponsors and all managers other than the District Manager need be concerned only with changes in their respective Current Working Estimates. If such changes are downward, no immediate action is required by them. If such changes are upward, they must make arrangements through appropriate channels (up to and including Congressional Committees, if necessary) for approval to proceed with the higher Current Working Estimate. If this approval of the higher estimate is obtained, then the necessary steps must be taken to secure an increase in the single allotment to that district, or the increase must be offset by reductions in other Current Working Estimates.

The key to this form of program management at field levels through control of the Current Working Estimates is the basic formulae of "Allotment equals Approved Program." So long as this basic equality is maintained, then the management of the fund accounts can remain solely with the District Manager (through his comptroller) with a resulting release of manpower for more important and productive work in connection with day-to-day contract administration and construction supervision.

Flow of Program Authorizations
and
Related Funding


Military Department
Construction Agency
ENGINEER DISTRICTS
PUBLIC WORKS DISTRICTS
Approved Programs
Available Funds
Construction Directives or Program Assignments
For each installation and Authorization Public Law by approved projects
Allotments
Equal to sum of the Construction Directives or Program Assignments issued to the District
Current Working Estimates and Cost Accounting
Fund Accounting
Installation Cost and Progress Report
(a) work in place
(b) estimated cost to complete
(c) contract status
District Fund Status Report
(a) accrued expenditures
(b) obligations
(c) balances
PERFORMANCE ANALYSIS
1. Program management (each approved project)
2. Fund management (District allotment)

PROBLEMS IN CONDUCTING A SYSTEMS STUDY

Mr. Arthur W. Brie, Systems Analyst, Office of Chief of Engineers, Army

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Concerning the Author: Arthur W. Brie is a civilian employee of the Office of the Chief of Engineers (Engineer Data Processing Center). He was graduated from the Pennsylvania State College in 1931 with a BS Degree in Electrical Engineering, stayed on for two additional years of graduate work under a Graduate Assistantship in experimental research.

In 1945 Mr. Brie was employed by the Office of the Chief of Engineers, Washington, D. C., serving until 1950 as an O&M Examiner in the Control Division and later the Management Division. In 1950 he was assigned as Chief of what is now the Review and Analysis Branch of the Management Division, Office of the Engineer Comptroller.

From 1952 to 1956 was Chief of the Management Engineering Division, Office of the Comptroller of The Engineer Center and Fort Belvoir, Fort Belvoir, Virginia.

In 1956 Mr. Brie returned to the Office of the Chief of Engineers as a Systems Analyst to head a planning group assigned to study the use of the electronic computer in processing mass data.

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Throughout the hierarchy of the Department of the Army the Comptroller has an interest in the "giant of the age" – the electronic computer for business data processing. The interest assuredly will include responsibility for obtaining funds to pay the bills for a computer installation. But it may include, also, responsibility for approving or recommending approval for acquisition of a computer; the evaluation of a proposal to acquire one; the conduct of a study leading to a proposal; the operation of a computer system; or the periodic measuring of the benefits actually attained against those promised or hoped for.

Literature abounds with articles on progressively more sophisticated -- and usually more expensive-computer systems developed by the manufacturers; on general statements of the great things that a computer can do for management; and with a very limited field of applications presently processed on a computer. But there is a lesser amount of published information that the Comptroller can "sink his teeth" into to accomplish the interests identified above. There is still less published on the specific causes of disillusionment to management when computer fail to realize the benefits hoped for. Finally, there is little information on the blood and sweat poured into the development of an efficient automatic data processing system -- or ADPS -- as data processing utilizing an electronic computer is known.

The purpose of this paper is not to delve into the entire range of interests, but rather into the problems that may be encountered in the portion of the systems study concerned with determination of what data is really needed, how frequently, and how fast.

The missions and the policies of the organization already having been established, the wisdom of rethinking or objectively reviewing the requirements for data is now almost universally considered as the first step leading to an effective automatic data processing system. Nothing which fails to contribute to the accomplishment of those missions should be allowed to continue in the system. This concept of ADPS, in itself, represents a fundamental change in thinking, for surveys of a little more than a year ago revealed that the great majority of those planning for ADPS were merely transferring from their present punched card systems to the faster electronic equipment.

With humans being what they are, with the normal resistance to change, their well entrenched departmental lines, and their carefully guarded empires, how are the data presently received but not essential to the mission to be culled out of the system? How is the singleness of purpose obtained to assure at least a reasonably successful attainment of the objectives of the system?

The ingredient considered most necessary to a successful automatic data processing system is genuine top management interest and support -- not in the hardware as a gadget, but in the system as a necessary and a powerful tool of management. When that support is real, the problems are easier to resolve; when it is fancied, the problems increase.

In private enterprise top management would include the Board of Directors, the President, and the advisory and operating Vice Presidents who have a responsible interest in the system; in the Department of the Army top management would include the Commander and his advisory and operating staff who have similar responsible interest. Although the objectives of top management in private enterprise and in the Department of the Army with respect to automatic data processing might be identical, the motives undoubtedly are different. The "profit" motive provides the drive to encourage top management support to ADPS in private enterprise for an improvement in profit can soon be observed in dollars and cents on the profit sheet. There is no corresponding motive to stimulate top management in the Department of the Army. If the motive be to improve the "state of readiness" for an emergency, the results may not be known until the emergency, which may occur years after ADPS has been installed, is upon us.

Now suppose that the Commander has stated in his objectives that "in the interest of efficiency, the number and context of periodical reports will be reduced to a minimum necessary to provide essential information. Unless analyzed a report has little value. Unless used, it is worthless. Receipt of information that serves only to answer occasional questions cannot be justified." Certainly this objective is the ultimate that the systems engineer could hope for in developing an automatic data processing system which would best utilize the capabilities of this tremendously fast and very expensive equipment.

But suppose that sometime later the Commander declares his policy that the other members of "Top Management," as individual staff officers, will determine their own data requirements. The policy is as it must be if the Commander is to view the staff as his responsible agents for seeing that the assigned missions are accomplished. But the policy increases the problems of effective automatic data processing, for in addition to working as a team with the Commander to accomplish the objective to limit reports and context thereof, to that necessary to provide essential information, the staff officers must protect their own interests as individuals.

The composition of top management in Department of the Army agencies contributes to the problems. These officers serve a period usually not exceeding three years in any single assignment. They may command a lower echelon one period, serve as a staff officer in supply in another, as a Comptroller, as an intelligence officer, etc. The time element alone will limit the amount of detail they can digest in any one assignment.

Top management, perforce, must rely on the judgment of lesser staff officials to determine data requirements. If the lesser officials are military, the same condition of limited tours of duty may require descension of the ladder of command still further to identify the official who determined the requirements. Eventually, the official is found who may have unpublished objectives of his own which do not coincide with the objectives of the Commander. One such official may state very frankly that he considers his organization to be an information service and must, therefore, maintain records, reports and all manner of data to provide answers for any request for information relating to the function he supervises. Another may have had pointed out to him a problem in a function performed at a lower echelon in an area not covered by a report, and this isolated problem became the justification for a report. The reasons for obtaining and maintaining data are too manifold to attempt to identify them all.

Despite the laudable Reports Control System in force in the Department of the Army and the excellent criteria for good reporting systems now available, the volume of data processed by agencies of the Department of the Army is tremendous. Under the system of successive dependency only a small dent can be made in these huge quantities of data. In a self appraisal of its own data requirements one organization reported no significant change in data requirements. The report was not accepted. In an appraisal of the same data requirements by a Task Force which included some outside analysts, the personnel responsible for processing the data did not voluntarily offer to give up one item of data in some thirty-five reports and records.

And so the problems remain. Literature will still expound on "management by exception," on "sampling techniques," on "operations research," but mountains of data will continue to be processed -- faster now because of automatic data processing.

FINANCIAL RATIOS IN SUPPLY MANAGEMENT

Dr. Waino W. Suojanen*

The management of inventory, material on order, and other requirements constitutes one of the most difficult and important tasks in the operation of the military supply system. The discussion in this paper is designed to indicate the relationships among the various elements entering into determination of materiel requirements and to suggest how certain financial data and ratios can be utilized to increase supply effectiveness and improve supply economy. An understanding of the relationships among the various elements of the supply demand equation is necessary for any comptroller personnel who, in one way or another, are concerned with accounting for materiel. Therefore, this subject will be discussed briefly before elaborating on the financial management relationship which can be developed from requirements data in order to improve supply management in the Department of Defense.

BASIC SUPPLY CONCEPTS

The level of supply is that quantity of materiel authorized or directed to be on hand at a storage or distribution point in order to meet the replenishable issue demands of the units and activities based thereon for supply. Replenishable demand consists of those issues or sales made to fill demands expected to recur periodically for an indefinite period, or demands for which stock was not available for issue or sale at the time of demands for which replacement of stocks should be made to meet future demands.

The level of supply is made up of two parts: (a) the operating level of supply and (b) the safety level of supply. The operating level of supply consists of that quantity of materiel required to be on hand to meet replenishable issue demands during the interval between arrival of successive replenishment shipments. The safety level of supply is that quantity of materiel, in addition to the operating level of supply, required to be on hand to permit continued operations in the event of minor interruption of normal replenishment or unpredictable fluctuations in issue demand.

The stockage objective and the average level of supply are corollary to the concept of level of supply. The stockage objective consists of the maximum quantities of materiel required to be on hand to sustain current operations. Theoretically, it consists of the safety level of supply plus the total of the operating level required to sustain operations until new materiel is received into the supply system. The average level of supply is equal to the safety level plus one half of the operating level of supply.

If a one-month safety level and a three-months operating level is computed for an item, the stockage objective is four months or the total of the two. The average level for this same item will be two and a half months--the sum of the one-month safety level plus one half of the three-months operating level. The reason for this is that stocks on hand, assuming equal monthly issues, will reach the safety level just as new materiel is received into the supply system. At this point in time, stocks on hand will be at their maximum which is equal to the stockage objective. At the end of the three-months period, stocks will again be depleted to the safety level. Thus the average level of supply is equal to the safety level of supply plus one half of the operating level.

The requisitioning objective consists of the maximum quantities of materiel required to be maintained on hand and on order to sustain current operations. It consists of the sum of the stocks represented by the operating level, the safety level, and the procurement lead time. The procurement lead time, in essence, is the same as the on-order amount whether established in terms of total quantity on order or the financial resources required to finance the materiel due in to the supply system. Total requirements, finally, is equal to the sum of the requisitioning objective plus the sales or issues anticipated to be made during the budget year to be replenished.

DETERMINATION OF REQUIREMENTS

The discussion in this section revolves around Table I. Table I includes two subdivisions. The first part (Column 1 through Column 7) develops the relationship among the elements entering into the determination of requirements which were discussed in the preceding section.

The inventory on hand in Table I consists of a month safety level of supply and a three-months operating level of supply. The stockage objective is four months and the average inventory is two and a half months. The reader should bear in mind that the table is illustrative only and that in actual practice the inventory control point or the supply installation would use instead the safety level and operating

*The methods explained in this article were developed by the writer while serving as a Consultant in Financial Management in the Office of the Assistant Secretary of Defense (Comptroller). The writer, currently on leave of absence from the University of California, Berkeley, is a Quartermaster reserve officer and holds a mobilization designation in the Office of the Comptroller of the Army.

level for an item, class, or group which is appropriate for that materiel.

For example, if the safety level for a particular item is three months and the operating level is three months, the stockage objective would be six months. The average inventory on hand would be four and a half months (the safety level plus one half of the operating level). For an item with a six-months safety level and a six-months operating level, the stockage objective would be twelve months and the average inventory would be nine months.

The total requirement, as shown by Table I, is equal to the sum of the safety level, the operating level, the procurement lead time, and the sales or issue requirement. For an item with a one-month safety level, a three-months operating level, four-months procurement lead time (on-order level), and a twelve-months issue or sales requirement, the total requirements will be twenty months as shown in Column 6 of Table I.

QUANTITATIVE RATIOS

The second part of Table I (Columns 8 through 12) consists of various standard quantitative ratios. These ratios are based upon the relationships among the components making up total requirements in the first part of the table (Columns 1 through 7). For instance, the breakdown of total requirements for the item discussed in the previous section is as follows:

	Months	Units	Per Cent
Safety level	1	100	5
Operating level	3	300	15
Procurement lead time	4	400	20
Issue requirement	12	1200	60
Total	20	2000	100

Another way of analyzing the above item is to look at it from the viewpoint of the relationship between any two components. Thus the safety level is 5 per cent of total requirements, 25 per cent of procurement lead time, and 33-1/3 per cent of the operating level. This is exactly what has been done in the second part of Table I except that the procurement lead time has been varied from zero through sixteen months. A similar table can be prepared, for instance, in which the safety level and/or the operating level is permitted to vary with the procurement lead time held constant.

The ratios in Table I are based on time relationships. Thus the safety level of supply is one month. However, the time periods in the first part of the table can be converted into physical parts merely by multiplying the monthly amount by the time period of the component. Thus, if a safety level of one month equals 100 units, the operating level, procurement lead time, and issues requirement will be 300 units, 400 units and 1,200 units respectively, as shown in the example.

FINANCIAL RATIOS

Units or months of supply can be converted into dollars merely by extending the standard price by the quantity. If the standard price for each item shown in the example in the previous section is $10.00, the capital invested in the safety level will be $1,000 and the investment in the operating level will be $3,000. Funding authority required to finance the procurement lead time will be $4,000 and $12,000 of procurement obligational authority will be required to replace sales or issues.

Table II is an illustrative budget for a materiel item with a one-month safety level, three-months operating level, six-months procurement lead time, and a twelve-months issue or sales requirement. With the exception of the six-months procurement lead time for the four used in the previous example, all the other variables remain the same. The 19 BY (budget year) column indicates that once an item is in stock only the sales or issue requirement calls for additional obligational authority. The 19 SY (subsequent year) budget shows the additional obligational authority which will be needed to procure mobilization reserve stocks.

Table III presents the 19 BY data of Table II, except that the financial control ratios have been added. With a balanced, well managed supply operation, and total requirements of 22 months (1 month safety level, 3 months operating level, 6 months procurement lead time and 12 months sales requirement), the control ratios will be those indicated in the right hand column of Table III.

USES OF THE CONTROL RATIOS

The control ratios developed in Tables I, II and III can be utilized for a number of purposes. Because they are standards, they can be used by higher supply management levels to determine whether lower levels are doing an economical job of inventory management. They can also be used as a standard against which to compare inventory stratification or segmentation. They are of value in establishing approximate fund requirements at higher headquarters for such purposes as the President's Budget.

These ratios are very useful not only for use in budget preparation and execution, they can also be employed by budget review authorities to determine whether funding requests are justified. By combining all items with similar requirements patterns, they serve as a means for expediting budget preparation and as a verification of sales or issue requirements. These ratios, in other words, serve as a guide in many areas and echelons of supply management because they demonstrate clearly the close relationship between the quantitative and the financial aspects of supply.

For example, Table I (Column 11) shows that total requirements, as a percentage of sales, increase as the procurement lead time

becomes longer. By reducing procurement lead time therefore, funds tied up in financing this requirement are lessened and the capital becomes available for other uses. For another illustration, Table I (Column 10) shows that the stockage objective as a per cent of total requirements, should go down as procurement lead time increases. This standard enables the inventory manager to scrutinize stocks on hand to see whether excesses may be developing. Many other standard ratios, such as those indicated in the tables, can be developed and utilized to improve supply management. It should be clear that these standards are a natural for automatic data processing systems and can easily be included in computer programs.

In closing, these ratios should not be considered as other than indicators to be used to improve supply management in the Department of Defense. By setting up certain optimum relationships, they can be utilized to spot and make corrections in trouble areas. Finally, they can be employed to establish a financial base upon which economic order quantity cost to hold data can be computed since inventories, such as mobilization reserve stocks, can be excluded very easily.

TABLE I

TABLE FOR REQUIREMENTS DETERMINATION AND STANDARD RATIOS

(1) Computed Assets On Hand and Due in (In Months)		(2) Safety Level of Supply	(3) Operating Level of Supply Equals Review Cycle Requirement	(4) On Order Requirement Equals Procurement Lead Time in Months	(5) Sales Requirement in Months	(6) Total Requirement in Months	(7) Average Inventory and On Order Level in Months	(8) On Order as Per Cent of Total Sales	(9) On Order as Per Cent of Total Requirements	(10) Stockage Objective as Per Cent of Total Requirements	(11) Total Requirements as Per Cent of Sales	(12) Other Requirements as Per Cent of Sales
a.	4	1 mo.	3 mos.	--	12	16	2.5	0.0	0.0	25.0	133.3	33.3
b.	5			1		17	3.5	8.3	5.9	23.5	141.7	41.7
c.	6			2		18	4.5	16.7	11.1	22.2	150.0	50.0
d.	7			3		19	5.5	25.0	15.7	21.1	158.3	58.3
e.	8			4		20	6.5	33.3	20.0	20.0	166.7	66.7
f.	9			5		21	7.5	41.7	23.8	19.0	175.0	75.0
g.	10	1 mo.	3 mos.	6	12	22	8.5	50.0	27.3	18.2	183.3	83.3
h.	11			7		23	9.5	58.3	30.4	17.4	191.7	91.7
i.	12			8		24	10.5	66.7	33.3	16.7	200.0	100.0
j.	13			9		25	11.5	75.0	36.0	16.0	208.3	108.3
k.	14			10		26	12.5	83.3	38.5	15.4	216.7	116.7
l.	15	1 mo.	3 mos.	11	12	27	13.5	91.7	40.7	14.8	225.0	125.0
m.	16			12		28	14.5	100.0	42.9	14.3	233.3	133.3
n.	17			13		29	15.5	108.3	44.8	13.8	241.7	141.7
o.	18			14		30	16.5	116.7	46.7	13.3	250.0	150.0
p.	19			15		31	17.5	125.0	48.4	12.9	258.3	158.3
q.	20			16		32	18.5	133.3	50.0	12.5	266.7	166.7

TABLE II

ILLUSTRATIVE OPERATING BUDGET

	19CY	19BY	19SY
I. Requirements:			
A. Peacetime Force material requirement -			
Safety level	$ 1000	$ 1000	$ 1000
Operating level	3000	3000	3000
Procurement lead time	6000	6000	6000
	10000	10000	10000
B. Mobilization reserve material requirement	--	--	5000
	10000	10000	15000
C. Material issues-reimbursable	12000	12000	12000
Total requirements	22000	22000	27000
II. Less materiel on hand, beginning of year -			
Peacetime Operating Stocks	--	4000	4000
III. Receipts from procurement	22000	18000	23000
IV. Less materiel on order, beginning of year -	--	6000	6000
V. Obligations for procurement	22000	12000	17000

TABLE III

APPLICATION OF FINANCIAL CONTROL RATIOS

	19BY	Per Cent of Sales
I. Requirements:		
A. Peacetime Force Materiel Requirement -		
Safety level	$ 1000	8.3
Operating level	3000	25.0
Procurement lead-time	6000	50.0
Total requisitioning objective	10000	83.3
B. Sales	12000	100.0
Total requirements	22000	183.3
II. Less materiel on hand, beginning of year -		
Peacetime operating stocks	4000	33.3
III. Receipts from procurement	18000	150.0
IV. Less Materiel on order, beginning of year	6000	50.0
V. Obligations for procurement	12000	100.0

KNOW YOUR OFFICERS

Mr. Lawrence W. Hoelscher, Deputy Comptroller, Army — Vice President of ASMC

1927 - 1931

Served as resident representative of Harland Bartholomew and Associates, City Planners, in the development and application of the city plan of Fort Worth, Texas.

1931 - 1937

Served the City of Fort Worth, Texas in the following positions and in the following sequence: City Planning Engineer; Assistant to the City Manager; Assistant City Manager; and City Manager.

1937 - 1940

Served as senior staff member, Public Administration Service, Chicago. Had charge of major projects for the firm, serving primarily municipalities; also represented the firm in negotiations for services rendered to public jurisdictions. In 1938, became General Field Supervisor and was responsible for supervision of a substantial part of the program of Public Administration Service. Activities included assistance to the cities of Springfield, Illinois; Miami Beach, Florida; Huntington, West Virginia; Peoria, Illinois; Brookline, Massachusetts; Alliance, Nebraska; Los Angeles and Fresno, California; Seattle, Washington; San Francisco, California; and Dayton, Ohio; and to the State of California.

1940 - 1950

Served as consultant to the U. S. Bureau of the Budget on problems of organization and management of Federal agencies. The principal assignment during this period was concerned with evaluation of the organization and administration of the Civil Aeronautics Administration and development of a report incorporating findings, conclusions and recommendations with respect to such matters.

As chief, Administrative Projects Section, Bureau of the Budget, directed program of assistance to the Army Air Corps, Army Air Forces and War Department in the improvement of organization and management of those agencies. Supervised and directed a large staff of specialists assembled primarily for the special purpose. Personally acted as a member of a committee of four, which developed the plan of organization structure of the Air Forces for the 9 March 1942 reorganization. (General Byron E. Gates and the present Senator Joseph Clark were two other members.) In addition, the program of assistance provided by the group included: development and technical direction of a system for the control of directives within headquarters of the Army Air Forces; development of the concept of program planning and selling the plan to top officers and officials of the Air Forces; preparation of draft directives covering operation of various segments of the system, and extensive responsible participation in initiation of the system; provision of principal technical guidance in the establishment of the world-wide military personnel reporting system of the Air Forces; development and establishment of a system of records and control for operation of the units' program and troop bases (the basic military program controls) of the Air Forces; leadership in the development of the strength accounting and reporting system for the War Department; and assistance to the Department of the Navy on problems of program management and other matters.

As chief, Management Improvement Branch, Bureau of the Budget, was responsible for providing leadership, direction and supervision for a staff of 40-60 persons engaged in the furtherance of improved management and operations throughout the Executive Branch of the Government. Was progressively assigned sections and activities from within the Bureau and developed the activities into a coordinated program for constructively influencing management of Federal agencies. As a basis for development of the program, formulated a framework of the elements of management which has come to be known in the literature as the "Tasks of Management." Also applied the framework to selected substantive fields, particularly property management. Activities of the Branch included: development of a Federal property management program, including development of applicable principles and practices and drafts of legislation as well as conduct of property management surveys and development of guides for the conduct of such surveys by individual agencies, and supervision of conduct of such surveys by the Bureau of Federal Supply; development of improved financial practices in the Government, including a simplified pay roll system; assistance in the establishment of accrual accounting of cost and performance budgeting in a number of Federal agencies.

At the request of the Deputy Commander of the Mediterranean Theater, headed and directed a project which resulted in the establishment of a system for projecting requirements and controlling the use of manpower resources and operations of the base sectors of the Theater. Also directed the staffing, training and organization of a management staff unit in the Theater headquarters for those purposes.

Upon request of General Lucius Clay to the Bureau of the Budget, headed a special group which went to Germany and defined and developed a system of program, progress and resources utilization reporting which enabled the General to evaluate the programs and activities of his military organization (EUCOM).

Acted as Bureau of the Budget representative on the GAO-Treasury-Bureau interdepartmental committee in the initiation of the program for improvement of accounting and financial reporting in the Federal Government. Mr. Walter Frese and Mr. Gilbert Cake represented GAO AND Treasury, respectively.

1950 - present

As Special Assistant to the Comptroller of the Army, acted as principal management advisor and technical representative of the Comptroller of the Army on all matters pertaining to the program of the Office of the Comptroller. During the First six months, also made special high-level studies for the Assistant Secretary of the Army (General Management), including a study of public information activities and a study of the organization and administration of Research and Development in the Army. Action of the report on the latter subject initiated fundamental changes in the organization and administration of research and development in the Army.

Originated and defined major projects to be undertaken in the Comptroller area; represented the Comptroller on steering and advisory committees, reviewed and appraised, or determined requirements for revision of major reports and project developments; and otherwise participated in the coordination and technical direction of the Comptroller program. Included among major projects of the Comptroller's Office during this period were comprehensive studies of the management and organization of the Army Technical Services (Ordnance, Engineers, etc.).

As Assistant Comptroller of the Army - Planning Coordination, was responsible for the definition of objectives and overall program goals for the Office of the Comptroller of the Army and for the coordination of objectives and program goals of the divisions and offices of the OCA.

As Deputy Comptroller of the Army since November 1952, assist the comptroller in carrying out his responsibility in formulating and in making decisions on Army-wide policies and programs relating to the business management for the Department of the Army, financial and fiscal operations and services, budget planning and administration, program analysis and evaluation, management engineering, auditing and financial transactions, accounting, receipt and disbursement of money, and other like matters under the jurisdiction and authority of the Comptroller of the Army. The Deputy Comptroller has particular responsibility for shaping and evaluating the content of the program of the OCA in order to assure that it best meets the requirements of the Department of the Army for general management staff services.

The following actions have been included among specific undertakings:

Proposed, secured the acceptance of, and supervised the initiation and establishment of the Army Program System throughout the Army Establishment (outside the D/A staff area).

Developed the concept of application and supervised the initiation and development of the cost-based program-type budget in the operations and maintenance area of the Army.

Developed the concept of, proposed and secured initiation of integrated programming, budgeting and accounting in the Continental Areas of the U. S. Army, subsequently termed the Army Command Management System.

Participated with the Comptroller of the Army in development of a proposal for presentation of the Army budget in terms of missions and organizations, with subordinate functional classifications.

Provided general guidance for the development of a single basis for work-measurement throughout the Army.

Developed the concept and secured the development of an integrated management structure for the Army to serve the various processes of management -- programming, budgeting, accounting, manpower control, and statistical reporting.

Achieved the initiation and conduct of a comprehensive study of the organization, management systems and practices applied in the posts, camps and stations of the Z/I Armies.

Provided active supervision of the principal activities of the Office, Comptroller of the Army, including particularly the accounting, management engineering, statistical reporting and analysis, auditing, and comptroller training functions.

Provided guidance for a study group to develop formats and principles for budgeting on an accrued expenditure basis.

Participated in the selection of a university for graduate training of officers in Army comptrollership, and took the lead in providing the policies to be incorporated in the curriculum. The 14 months' training, leading to a Master's Degree, utilizes both the business and public administration schools of the university and is oriented primarily to the current processes and problems of the Army, rather than to private enterprise and civilian government. It is believed to be the only instance of comparable training available.

Supervised the planning and development of the Army Command Management School, designed for orientation and instruction of installation commanders and their key assistants in the current management concepts and practices of the Army.

In the absence of the Comptroller, the Deputy Comptroller is designated Acting Comptroller and carries out the responsibilities of the office. Have served as Acting Comptroller for periods of from two to five months, and during such periods represented the Comptroller on the General Staff Council, the Army Policy Council and in other capacities as indicated.

KNOW YOUR OFFICERS

Brigadier General Herman Nickerson, Jr., USMC — Vice President of ASMC

Brigadier General Herman Nickerson, Jr., who earned the Army Distinguished Service Cross, the Silver Star, and the Legion of Merit during the Korean Conflict, is now serving as Special Assistant to the Fiscal Director at Headquarters Marine Corps, Washington, D.C.

For extraordinary heroism in Korea on May 31, 1951, as Commanding Officer of the Seventh Marine Regiment, First Marine Division, he was awarded the Distinguished Service Cross, the nation's second highest combat award. His citation states in part:

> "Learning that two of his battalions were heavily engaged and that the enemy was grouping for a counter-attack, (the then) Colonel Nickerson unhesitatingly left the comparative safety of his command post and fearlessly moved forward over rugged mountainous terrain, under intense enemy mortar and artillery fire, to the most forward elements of his command. Unmindful of his personal safety, he advanced to an exposed vantage point under heavy enemy fire and, through his brilliant guidance, his troops repulsed the ferocious counter-attack, taking the offensive and overwhelming the fanatical foe to secure the high ground dominating the vital road junction of Yang-gu."

General Nickerson was born on July 30, 1913, in Boston, Massachusetts, and graduated from high school in Arlington, Massachusetts. He graduated from Boston University with a BS degree prior to accepting a commission as a Marine second lieutenant on July 10, 1935.

The general completed Basic School at the Philadelphia Navy Yard in February 1936 then embarked for Shanghai, China, where he served two and a half years with the Fourth Marines. On his return to the States in November 1938, he was Commanding Officer of the Marine Detachment at the Naval Air Station, Seattle, Washington. Joining the Second Defense Battalion in September 1940 he served with them in San Diego, California, and Parris Island, South Carolina, and completed the Antiaircraft Artillery Refresher Course at the Coast Artillery School, Fort Monroe, Virginia. Following the attack on Pearl Harbor, he embarked with the battalion to join the Second Marine Brigade on American Samoa, where he served as Battery Commander with the 3-Inch Antiaircraft Artillery Group and as Group Executive Officer and finally Group Commander.

Shortly after his return to the United States, General Nickerson was assigned to Marine Corps Schools, Quantico, in October 1943, as Commanding Officer, Ordnance School, and subsequently attended the Command and Staff School. In February 1945, he was attached to the Fourth Infantry Training Regiment at Camp Pendleton, California, and embarked from there for duty in the Pacific area as Ordnance Officer with the 25th Marines, Fourth Marine Division. That September he was named Ordnance Officer with the Third Amphibious Corps in Tientsin, China; and in June 1946 continued to serve in the same capacity with the First Marine Division following dissolving of the Third Amphibious Corps.

In January 1947, the general began a three-year assignment at the Marine Corps Recruit Depot, Parris Island, serving consecutively as Assistant G-3, Battalion Commander, and Assistant Chief of Staff G-3. He also saw temporary duty from January through August 1949 as a U. S. Military Observer with the United Nations Mission in Palestine and seven Arab States. In July 1950, he graduated from the Armed Forces Staff College, Norfolk, Virginia, and departed for the Far East.

From August 1950 to April 1951, General Nickerson served as Advisor on Marine Corps Matters, General Headquarters, Far East Command, and also performed temporary additional duty in Korea. For conspicuous gallantry in September 1950 while serving as Liaison Officer of the Seventh Marines, during the advance along Inchon-Seoul Highway and during the Han River crossing, he received the Silver Star Medal. He commanded the Seventh Marines in Korea from April through September 1951.

Named Inspector of Fleet Marine Force, Pacific, in October 1951, the general served in this capacity until March 1952 when he returned to Marine Corps Schools, Quantico. There he served as Director, Advance Base Problem Section until June 1954, and as Director, Senior School, until July 1956. He served next at Pearl Harbor from August 1956 to December 1957 as Assistant Chief of Staff, G-3, Fleet Marine Force, Pacific. In January 1958, he joined Fleet Marine Force Atlantic, at Norfolk, to serve in the same capacity, and that September was transferred to Headquarters Marine Corps. He was promoted to his present rank as brigadier general on January 1, 1959.

In addition to the Army Distinguished Service Cross, the Silver Star Medal and the Legion of Merit with Combat "V", the general's medals and decorations include the Bronze Star Medal; the Air Medal; the Presidential Unit Citation with two bronze stars indicative of second and third awards; the China Service Medal with one bronze star; the American Defense Service Medal; the Asiatic-Pacific Cam-

paign Medal; the American Campaign Medal; the World War II Victory Medal; the Navy Occupation Service Medal; the National Defense Service Medal; the Korean Service Medal with one silver star in lieu of five bronze stars; the United Nations Service Medal; and two Korean Presidential Unit Citations.

General Nickerson and his wife, the former Phyllis Anne Winters of Tacoma, Washington, have a son, John H. (born July 30, 1941) and a daughter, Dennis Anne (born January 17, 1951). The general's mother, Mrs. Emma E. Nickerson, lives at 4319 N. 39th Street, Arlington, Virginia. His father is deceased.

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A LETTER TO THE EDITOR –

"* * * Extend my congratulations to Brigadier General Paul W. Scheidecker for the article "Human Relations Applied To Air Force Comptrollership."

Yours Very Truly,

Henry B. Longaker – Office of the Comptroller, Bureau of Yards and Docks – Navy

Your National Editor wishes to add a "WELL DONE General" to the above.

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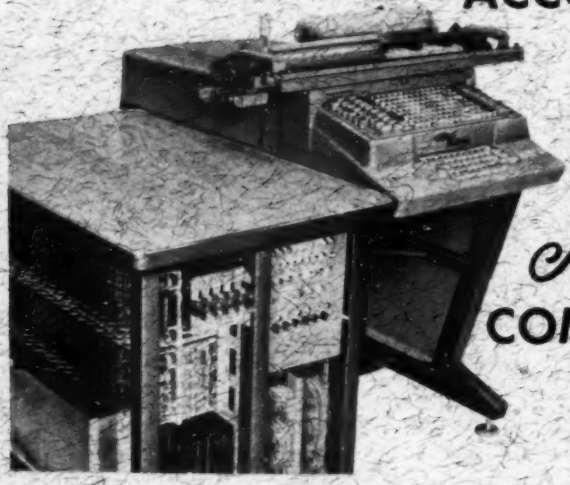

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